JCPenney

1995 | Annual Report

J.C. Penney Company, Inc.


ULTIMA II

At the Speed of Change

THE ASTONISHING PACE of change is transforming the way we do business. From an increasingly segmented, diverse customer base to fast-moving technological advances to the volatile, competitive retail marketplace, JCPenney is poised to meet the challenges that change creates.

The driving force behind our efforts is our people. Skilled, dedicated teams are responding to tomorrow's customers – today – by building on private brands unmatched in fashion, quality, price, and profitability. Through active planning and aggressive cost management, we are focused on increasing market share and accelerating our profitable growth. And we are committed to expanding our technological edge to ensure speed, efficiency, and accuracy in every aspect of our business.

Without question, JCPenney must move at the speed of change in everything we do. But one thing will never change: Our dedication to having what the customer wants when the customer wants it.

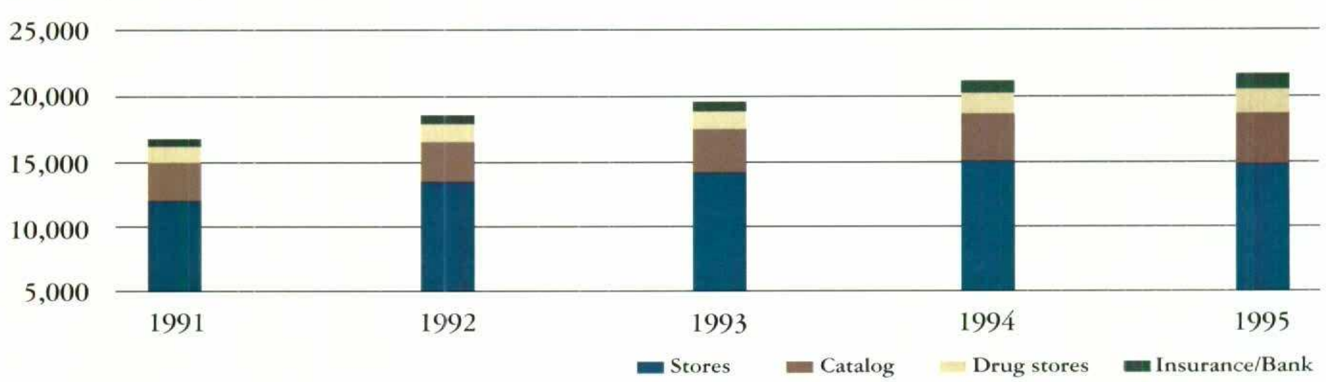
Financial Highlights

J.C. Penney Company, Inc. and Subsidiaries

($ in millions except per share data)	1995	1994	1993	1992[3]	1991
Retail sales	$ 20,562	$ 20,380	$18,983	$18,009	$16,201
Total revenue	$ 21,419	$ 21,082	$19,578	$18,515	$16,648
Comparative store sales[1] per cent increase/(decrease)	(1.4)%	6.8%	5.3%	9.7%	(1.5)%
EBITDA[2]	$ 2,340	$ 2,611	$ 2,431	$ 2,140	$ 1,813
EBITDA as a percent of total revenue	10.9%	12.4%	12.4%	11.6%	10.9%
Net income	$ 838	$ 1,057	$ 940	$ 777	$ 80
Net income per share	$ 3.33	$ 4.05	$ 3.53	$ 2.95	$ .20
Return on stockholders' equity	14.9%	19.7%	20.1%	18.6%	12.0%
Dividends per share	$ 1.92	$ 1.68	$ 1.44	$ 1.32	$ 1.32
Cash flow generated[4]	$ 1,327	$ 1,414	$ 1,408	$ 1,193	$ 985
Debt to capital ratio	52.6%	53.1%	51.1%	53.2%	59.0%

[1]Stores open at least a year.
[2]Earnings before interest, taxes, depreciation and amortization as calculated on page 38.
[3]Comprised 53 weeks, except comparative store sales, which are shown on a 52 week basis.
[4]Net income plus depreciation and amortization, and deferred taxes.

REVENUE ($ MILLIONS)



JCPenney Nature of Operations JCPenney is America's largest department store, operating 1,238 JCPenney stores in all 50 states, Puerto Rico, Mexico, and Chile. The Company merchandises 114 million square feet of space, the majority of which is in premier shopping malls, more store space than any other U.S. department store. In addition, Company licensees operate smaller JCPenney Collections stores offering JCPenney private brand merchandise to consumers in the Middle East, Indonesia, and the Philippines.

The Company markets women's, men's, and children's apparel, accessories, and home furnishings to middle and middle/upper income consumers. The Company's strategy is to offer consumers exceptional value in every aspect of their shopping experience: merchandise quality, fashion, selection, price, customer service, shopping ease, and store ambiance.

The department stores' reach is augmented by JCPenney Catalog, the No.1 catalog in sales in the United States. JCPenney Catalog is supported by the largest privately owned telemarketing network in the nation, catalog departments in virtually all domestic JCPenney stores, and more than 600 additional catalog centers around the country, as well as independent licensed catalog merchants in 16 countries worldwide.

Strong additional businesses also contribute to the Company's bottom line. These include Thrift Drug, now the 10th largest drug store chain in the country; JCPenney insurance companies, marketing life, accident, health, and credit insurance; and JCPenney National Bank, which offers Visa and MasterCard credit cards to consumers.

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Financial Review

Our financial results in 1995 didn't meet our expectations. Despite the chaotic and highly competitive retailing environment, we anticipated doing better. Total retail sales rose 0.9 per cent to \$20.6 billion, and earnings were \$838 million, or \$3.33 per share, compared with \$1,057 million, or \$4.05 per share, in the previous year. We fully expect that our future results, starting with 1996, will be more in line with our performances over the past few years.

To demonstrate its continued confidence in our prospects, the board of directors last month increased the quarterly dividend 8.3 per cent to 52 cents per share, bringing the indicated annual rate to \$2.08.

JCPenney is implementing a number of strategic initiatives to ensure our competitiveness, to meet our growth objectives, and to provide a strong return on our stockholders' investment. These initiatives include:

- accelerate growth in our top 10 markets,
- expand our women's apparel and accessories business,
- speed merchandise to market,
- reduce our cost structure, and
- enhance customer service.

The intensifying competition in the retail industry is already altering the landscape. Due to excessive retail space and merchandise, the increasingly value-conscious customer is faced with a number of alternatives on where to shop. The state of the domestic retail industry can be summed up as relatively flat in an over-stored marketplace. Many retailers have gone out of business, a phenomenon that creates further disruption and puts even more pressure on pricing. As we address our near-term results, we are keenly aware we must take bold steps to position ourselves for sustained growth and profitability over the long term.

At JCPenney, we believe that profit margins will remain under pressure. To succeed, it will be important to find new ways of reaching and winning the consumer's business. It will require operating more efficiently, looking for new channels of distribution, new products, and providing customers with fresh merchandise in friendly, helpful surroundings. Above all, consumers must trust that they are getting value for their money. These are all areas where JCPenney has historically excelled.

A cornerstone of our strategic plan is to improve our focus and execution in our larger markets where a great opportunity for profitable growth exists. To support this initiative, Tom Ashmore has been appointed president of a new region for stores, consisting of the top 10 JCPenney markets by sales volume. These markets include Chicago, Dallas/Fort Worth, Detroit, Los Angeles, Miami, New York/New Jersey, Philadelphia, San Francisco, and Seattle. Also among the markets is Baltimore/Washington, D.C., which strengthened its position among the top 10 markets with our 1995 acquisition of seven Woodward & Lothrop stores.

To support our Company with a strong marketing organization, Gale Duff-Bloom has been elected president of marketing and company communications. Establishing our marketing efforts under the leadership of a president emphasizes the importance of a seamless message across all of our businesses.

Our women's business is a crucial element of our profitable growth. It has such potential and offers us such market share-growth opportunity that we require the talents and leadership of two senior-level managers. Marilee Cumming has been appointed president of the women's apparel division and Jim Hailey has become president of the women's accessories division.

We must speed new merchandise to market. Since the wants and needs of today's customers can change rapidly, they will not wait for a favorite retailer to catch up; they will take their money elsewhere. We will examine our entire merchandise cycle, from merchandise development to sourcing and to the amount of merchandise we store in warehouses. Our goal will be to deliver merchandise to customers in the shortest period of time.

We will continue to find ways to reduce costs in our businesses. The challenge for the entire Company is to eliminate redundancies and make better use of the efficiencies our systems provide. In 1995, we received more than 7,000 cost-cutting suggestions from our associates. Your Company implemented many of these ideas, which are streamlining our operations and lowering costs. We will continue these efforts in 1996.

In addition, we plan to enhance customer service. We know that the consumer has a choice, and the decision to buy often depends upon the level of customer satisfaction. We will look at customer service from a broad perspective, encompassing all areas, and initiate specific improvements.

Our financial strength gives our Company the flexibility to implement these strategic initiatives and capacity to examine other avenues of growth. Throughout our 94-year history, we

From left: Vice Chairman and Chief Executive Officer James E. Oesterreicher, Chairman of the Board William R. Howell, and President and Chief Operating Officer W. Barger Tygart

have always maintained a financial position that would allow us to make changes during periods of transformation and economic uncertainty. Currently, we are able to pursue aggressive store modernizations as part of our capital expenditure program. Our total capital expenditures are planned at $700 million annually for the next three years. We believe that our strong financial position is one of our significant competitive advantages. To preserve this competitive advantage, we are committed to having one of the strongest balance sheets in retailing.

Our 10 million share common stock buy-back program in 1995 and our dividend increase underscore our confidence in the financial strength of your Company and in our ability to achieve future earnings growth. In fact, we have already purchased 7.5 million shares of JCPenney common stock as part of the 10 million share buy-back program.

Our board of directors, always a source of wise counsel and strength, was enhanced this year with the addition of former Texas Governor Ann Richards and Dr. R. Gerald Turner, president of Southern Methodist University. Their diverse experience will be a great advantage in the years ahead.

In 1995, three key, highly respected executives retired from JCPenney: Terry S. Prindiville, executive vice president and director of support services; Robert E. Northam, executive vice president and chief financial officer; and R.H. Seaman, president of the southeastern region. They have our thanks for many years of outstanding service and our warmest regards for their futures.

Other newly elected senior officers include Don McKay, senior vice president and chief financial officer; John Fesperman, senior vice president and director of support services and subsidiary operations; Don Hoggatt, president of the northeast region; Michael Taxter, president of the south region; Randy Ronning, president of the home and leisure division; and Gary Davis, senior vice president and director of personnel and administration.

The following pages highlight how your Company is leveraging its many strengths. Historically, JCPenney has been successful in finding opportunities for non-comparative growth within comparative space. Additionally, we continue to examine our global opportunities. Currently, we have two department stores in Mexico and one in Chile, as well as Collections stores of private brand merchandise in the Middle East, Indonesia, and the Philippines.

Your Company intends to be among the leaders in retail performance next year and in the next century. We know that achieving that goal means much more than doing business as usual. It means moving ahead at the speed of change.

Warmest regards,

William R. Howell
Chairman of the Board

James E. Oesterreicher
Vice Chairman of the Board
and Chief Executive Officer

W. Barger Tygart
President and Chief Operating Officer
April 5, 1996

Stores

Change in Store

When it comes to customers' needs, the future is now

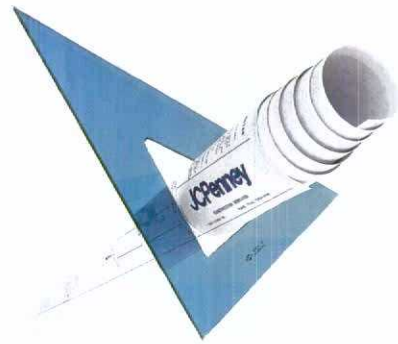
Over the next three years, the Company plans to continue with an aggressive capital expenditure program, currently planned at over $2 billion. Most of the capital investment will be devoted to opening new and relocated JCPenney stores and to remodeling existing store facilities. The new stores will showcase wide aisles and provide a greater sense of openness and convenience – what the customer tells us she wants when shopping.

The Company is equally dedicated to a vigorous store modernization agenda. Marketwide updates are bringing older stores up to current standards to improve accessibility, shopping ease, and merchandising opportunities. Modernization teams are examining ways to expand productivity even further, including improving net-sell to gross-space ratios. So far, the upgrades have met with favorable customer response.

Overall, the Company continues to analyze merchandise placement, shaping and molding departments into areas of shopping convenience for the customer – and greater productivity for JCPenney.

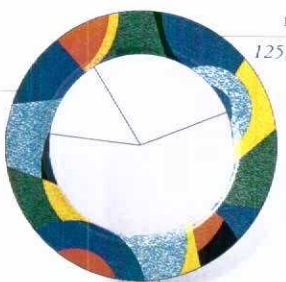
The same combination of goals led to a realignment of the Company's four regions in early 1996. A new region will contain the 10 largest national markets by sales volume, with the remaining stores dispersed among three regions – the northeast, south, and west.

Capitol Idea: JCPenney moves to Washington



Store innovation JCPenney's ultimate goal is to make 114 million square feet of prime retail store space perform at ever-better levels. Along with new and updated stores, the Company continues to innovate and develop businesses that previously didn't exist.

GROWING A BRAND NEW BUSINESS: *JCPenney's two-year-old Gift Registry expects to have 250,000 registrants by the end of 1996.*



Private-brand evolution notwithstanding, perhaps the most dramatic new business at JCPenney is the Gift Registry. Following its successful 1994 debut, it is the first truly national department store registry. On-site consultants and computerized, interactive in-store kiosks service the highly profitable bridal and baby-gift market.

The 56-page Gift Registry Catalog supports the registry, which will soon be in 800 stores. With its toll-free number (1-800-JCP-GIFT), the catalog extends the store assortments with fine china and crystal from such well-known brands as Lenox, Noritake, and Mikasa.

It's a compelling new business for JCPenney. The Gift Registry is introducing more than half of its registrants to JCPenney Catalog. With more than 100,000 brides and 25,000 newborns registered in 1995, JCPenney will become one of the nation's leading retailers of fine china, a lucrative department-store business previously not part of the Company's mix.

Free-standing Home Stores debut In 1995, JCPenney flexed its muscles as the dominant retailer of soft home furnishings with the opening of four new free-standing home stores, ranging in size from 36,000 to 52,000 square feet.

In Las Vegas, Nev., the debut of a 52,000-square-foot store drew 10,000 customers on opening day alone. The new stores allow a bold expansion of assortments and the addition of more upscale brands. In addition, they free space in department stores for expanded apparel lines.

Some 20 additional locations have been selected for store openings in the near future. Most will go head-to-head with category killers in power strip centers.

Styling Salon cuts into the action With 900 salons nationwide and sales in excess of $450 million, JCPenney is the largest mall-based hairstyling operation in the nation. The connection with shopping is a natural. Surveys show that more than 50 per cent of our salon clients shop JCPenney after their hair or nail appointments.

JCPenney fortified its presence in the Washington, D.C., area with the acquisition in August 1995 of seven Woodward & Lothrop stores inside Loop 95.

The widely publicized move adds to the 14 department stores the Company already operates in the highly attractive Baltimore/Washington, D.C., marketplace.

The seven stores, now closed for extensive remodeling, will reopen as JCPenney stores in the summer of 1996.

Merchandising

Change in Style

The consumer leads us to a new, more relaxed approach to work and play

CHANGING CONSUMER LIFESTYLES and work habits generated exciting new fashion directions at JCPenney. Ushered into the mix were fresh fabrics and new silhouettes, leading to innovative expansion of the Company's popular Worthington®, Hunt Club®, and Stafford® private brands. The consumers' search for more comfortable, casual weekend wear led them to the St. John's Bay® menswear brand, paving the way for a spring 1996 introduction of St. John's Bay for women.

Along with updating established private brands, 1995 saw the debut of new brands to the merchandise mix. Introductions included the American Cabin furniture collection by noted artist/designer Bob Timberlake, a new lingerie line created by supermodel Frederique van der Wal, and a cosmetic line from pop superstar Patti LaBelle.

THE ORIGINAL ARIZONA JEAN COMPANY: IN STORE SALES STILL GROWING

Tailoring the product with value – Women's The fashion, value, and quality of JCPenney private brands led the Women's business. The Company's Worthington brand, the largest-selling private career brand in the country, continued its strong growth. A double-digit sales gain for career sportswear for the year reflected, in part, the brand-development team's quick reaction to the business-casual trend. The Original Arizona Jean Company® logged gains and reached an all-time high in customer awareness. Cosmetics and handbags also turned in solid performances. New styles within Hunt Club, our premier casual line, delivered striking value and quality along with classic good looks. The division is now intensifying statements of fashion-forward merchandise, exploiting the better and best portions of our business and more effectively segmenting our mix by store and market.

Dressing down for success – Men's In menswear, sport coats and dress slacks continued their growth, as men restyled their wardrobes to include more relaxed business attire. For 1996, the division will further capitalize on the trend with the debut of Stafford Options®, a carefully integrated collection of suits, trousers, and sportcoats in fabrics and colors that work together, much as women's sportswear groupings do.

In 1995, the division also inspired fashion-minded young men with City Streets®, a contemporary casual collection with a European influence.

The Men's division also capitalized on the success of wrinkle-free cotton in casual pants and dress shirts. By 1996, 70 per cent of JCPenney dress shirts will offer wrinkle-free as an added value, including blended dress shirts that previously had been "easy care."

CONTINUED ON PAGE 10

- **The Women's division produced a double-digit sales gain in Worthington career sportswear.**
- **The Men's division delivered strong gains in City Streets, a European-influenced brand for fashion-minded young men.**
- **The Home and Leisure division introduced the industry's first wrinkle-free sheet in 1995. This single product innovation will generate strong sales in 1996.**
- **The Original Arizona Jean Company nears the $1 billion mark in sales in stores and catalog.**

Growing up – Children's and Family Shoes On the Family Shoes side, the Company realized a substantial sales gain, with fashion looks in women's shoes setting an even better pace. Intensified efforts to improve breadth and depth of assortments were keys to growth.

In children's apparel, private brands from The Original Arizona Jean Company, New Moves®, Okie-Dokie®, and Bright Future® continued to offer customers unsurpassed quality and value. For 1996, JCPenney will expand its children's business, marketing licensed children's apparel and accessories.

There's no place like Home The Home and Leisure division maintained its competitive advantage in soft home furnishings. Unique private brands, such as By Design/JCPenney and Classic Traditions®, set the Company apart from other retailers.

Product innovation and national brands also helped reinforce 1995 results. The division introduced the industry's first wrinkle-free sheet in 1995, which is expected to generate strong sales in 1996, and completed the rollout of the Royal Velvet towel by Fieldcrest, probably the single most recognizable national brand in the home furnishings industry.

JCPenney's greatest strength, however, is the breadth of resources it provides consumers. The division's color program, which coordinates home furnishing colors between patterns and across product categories, makes decorating simple for shoppers. The Company's made-to-measure window coverings program and professional custom decorating studios offer additional options. JCPenney Catalog enhances the customer's selection further by expanding store assortments dramatically. For example, while a large retail store might carry 100 stock-keeping units in Supreme antique satin draperies, Catalog carries 1,200.

Building in the athletic arena – Simply for Sports JCPenney continues to be a leading retailer of key athletic brands such as Adidas, Umbro, Fila, Nike, and Reebok. JCPenney still holds the title as the No. 1 retailer of licensed team apparel. It's all available in Simply for Sports® and Simply for Sports for Kids® in most JCPenney stores.

Each self-contained shop harnesses in one location the powerful appeal of athletic apparel. These areas are poised for growth as wellness and fitness continue to engage

the consumer. Moreover, with our exclusive USA Olympic® brand, the Company is uniquely positioned to benefit from the excitement the 1996 summer Olympic games will generate.

Quality – JCPenney is right on Q

Setting industry benchmarks in quality and brand development, JCPenney's private brands have achieved national brand status in the minds of consumers – and, in many cases, even outselling entrenched national brands.

The unique mix of merchandise is backed by an equally unique focus on quality. No other retailer matches the JCPenney worldwide system of evaluation and inspection, a clear competitive edge and an incomparable value to the consumer.

JCPenney Quality Assurance field representatives work with manufacturers across the United States and in more than 100 foreign countries. Armed with laptop computers, Internet connections, and a wealth of product expertise, these representatives speed reports and evaluations to the merchandising arms of the Company, ensuring that quality merchandise swiftly finds its way to shoppers.

In the Company's 50,000-square-foot Merchandise Testing Center in Carrollton, Texas, some 100 highly trained engineers, technologists, and technicians test everything from fabric to furniture to footwear. Utilizing innovative processes and sophisticated scientific testing, the laboratory provides detailed product evaluations on key items in as little as 48 hours.

The testing center further advances the JCPenney private brand strategy by performing detailed comparisons of Company brands with national competitors. The results provide the critical data needed to ensure our private brands always deliver a valid competitive advantage.

Besides testing what is available today, the center supports product innovation for tomorrow. Wrinkle-free is a noteworthy example. From slacks to shirts to sheets, the center served an instrumental role in developing and maintaining the best wrinkle-free products in the marketplace today.

Value Right

Value — the right combination of quality, fashion, and price — has driven consumer buying through much of the '90s.

In 1995, JCPenney magnified its identification with value by introducing Value Right: right fashion, right quality, right price. One hundred items storewide now display this unique label, guaranteeing customers their money back if they find a similar item of better value anywhere.

Backed by national print and television advertising, store signing, and distinctive hangtags, the program delivered solid success from the start.

Consumers have responded particularly strongly to Value Right children's windsuits, Home Collection® comforter sets, and Jacqueline Ferrar® poly/wool gabardine separates.

Catalog

Change in Home Shopping

JCPenney Catalog offers unparalleled convenience in a high-speed world

JCPENNEY CATALOG is a store beyond a store, an enormous resource for sizes, colors, and overall selection not available on this level anywhere else. This vast enterprise – the largest sales-volume catalog in the country – comes together through high-tech distribution centers, the largest private telecommunications operation in the nation, and a powerful computer network.

Customers demand fast, convenient, guaranteed service. In 1995, JCPenney Catalog delivered most orders in two days, the best performance in the business. Catalog's 14 telemarketing centers handled more than 100 million calls last year, responding to them on average within 15 seconds – about three telephone rings.

Through its fast-paced telemarketing centers, Catalog continued its massive commitment to 24-hour, seven-day-a-week, shop-at-home convenience.

To keep Catalog on the leading edge, the division enlisted technology to streamline many operational areas. A new receiving system now accelerates catalog shipments at JCPenney stores, increasing the speed and efficiency of customer transactions at store catalog desks. Catalog referral orders can now be made quickly in

stores at the point of sale. In Catalog distribution centers, where computers track inventory and lasers scan barcodes on incoming merchandise, a revised space-utilization program will further increase the speed of inventory movement and order processing.

HIGH POTENTIAL: *Specialty catalog sales have been growing at double the rate of total Catalog business.*

Filling the niche with merchandise and service Specialty catalogs targeting specific market segments expanded the customer base of the division's business. An unprecedented collection of size-specific books made shopping easier for tall and large-size women, plus big and tall men, while merchandise-specific books showcased shoes, men's shirts, and more.

JCPenney's uniform catalog maintained its edge as one of the most profitable of the division's more than 50 specialty catalogs. Collateral marketing efforts targeting registered nurses at home, practice, and professional conventions helped solidify the success.

Another growing segment, the bridal catalog, delivered the largest bridal-sales volume in the industry. Specially trained consultants at Catalog telemarketing centers handled all inbound calls from the bridal catalog, so the bride-to-be received a unique level of service, one tailored to her unique needs.

The division also established business relationships with best-in-class catalogers offering non-competing merchandise, providing each with a unique menu of services. Bass Pro Shops and Golfsmith's, two quality sporting goods catalogers, are among the newest additions to the program.

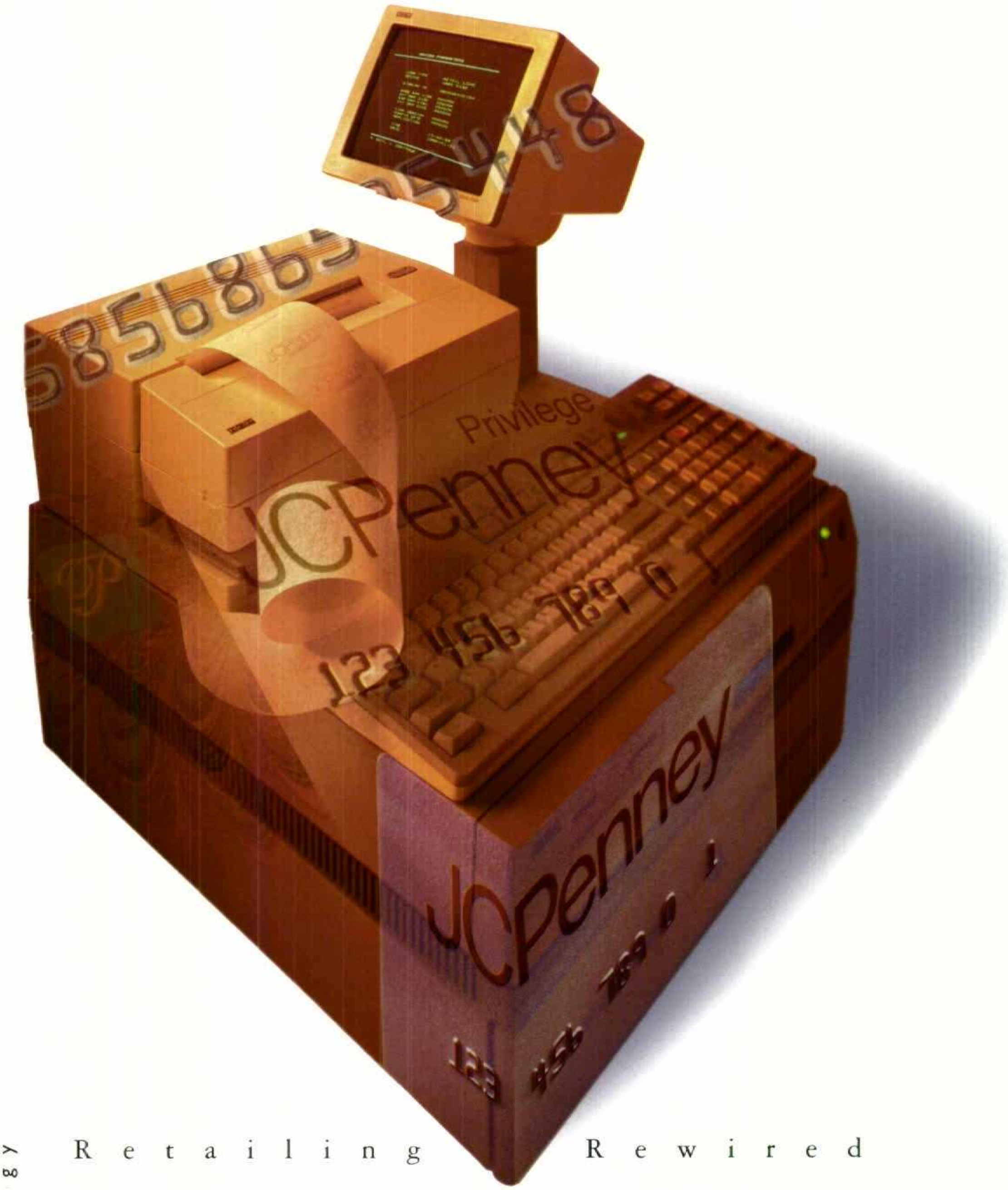
Charting global growth 1995 was the most productive expansion year for Catalog's worldwide growth. The division more than doubled its international presence, opening licensed catalog sales operations in nine new countries. Several additional operations will debut in 1996.

JCPenney Catalog currently sells merchandise through Prodigy, Compuserve, and America Online.

The division continues to explore interactive television shopping with major telephone and cable companies.

Through 1995, consumers could view 400 Catalog products on JCPenney's home page on the Internet.

By mid-1996, consumers will be able to order merchandise directly via our electronic address: www.jcpenney.com.



Technology

Retailing Rewired

Technology is changing the way we communicate with consumers, suppliers, and associates

JCPENNEY POINT-OF-SERVICE TERMINALS now empower sales associates, providing them with a real customer-service edge.

Accepting checks electronically and entering customer information for an instant credit application: now it can be done at the point-of-service. Associates can scan the inventory of other stores in their district and even access Catalog's order-entry system, placing customers' orders for sizes and colors the store does not currently have in stock. These time saving enhancements illustrate how JCPenney is reshaping its advanced technology to better serve the customer.

Pioneering technology is appearing in all areas of the Company. Many manuals detailing Company procedures are now online, departmental visual presentations are generated on computer, and store signs are created on computer and transmitted by modem to regional host sites.

Codeword: speed JCPenney supplier communication continues to be virtually instantaneous through a vast electronic-data-interchange (EDI) network. The Company processed a record 95 million EDI documents in 1995, as purchase orders and invoices flowed through computers from stores to suppliers in an efficient, paper-free environment.

The Company's automatic merchandise replenishment system continues to improve in-stock positions with the same or lower inventory investments. The system replenishes year-round items at the color and size level, automatically reordering merchandise based on actual sales. By providing an even flow of needed merchandise, the system kept stores in stock in these key items. The Company now has 117 subdivisions accounting for \$5.4 billion in sales on this system. Collectively, sales in these subdivisions have outperformed the Company as a whole with an average gain of 6.2 per cent over the last three years.

Robots select, mount, and file vital data in the Company's automated tape management system.

HAVING WHAT THE CUSTOMER WANTS— ALL THE WAY TO SIZE AND COLOR LEVELS. *With automatic reorder, in-stock percentages of merchandise grow.*

Quantum leaps in learning In 1996, JCPenney will launch a revolutionary system to train large numbers of associates more effectively and with less cost than ever before. This unique interactive video process, called Distance Learning, will provide more than 1,000 hours of instruction in 1996. It will all be possible by combining an interactive keypad with our state-of-the-art direct broadcast system.

Associates in teleclasses, for the most part in their own stores, will watch video presentations and participate through a two-way audio hookup and a keypad response system. The system will allow the real-time return of audio and data over phone lines, with the instructor controlling the flow of information.

In addition, computer workstations in major markets will provide new hires with orientation, customer service education, and point-of-service training. Learning will be interactive, and associates will demonstrate their progress through instructional games.

With Distance Learning and multimedia personal computer instruction, associates will be able to enroll in classes as needed and learn at their own pace.

Shopping the Net

JCPenney's consumer web site on the Internet (www. jcpenney.com) celebrated its first birthday during Holiday 1995.

The site provides investor information and career opportunities at JCPenney, along with showcasing some 1,100 items that consumers will be able to order from JCPenney Catalog starting this year.

The Gift Registry is also on the Internet, giving net surfers opportunities to order wedding and baby items.

In addition, the Company is using the Internet to streamline links with both suppliers and associates.

Growth in other businesses

Thrift Drug The 10th largest drug store chain in the country, Thrift Drug operates 645 retail stores in 12 states. Within the last 18 months, the chain added 97 Kerr Drug stores, 40 independent pharmacies, and 20 new stores to its store network. It is now No. 1 or 2 in market share in virtually all major markets in which it operates.

Thrift Drug also operates a state-of-the-art mail service pharmacy, an institutional pharmacy business, and a prescription benefits management program.

The chain achieved a 5.5 per cent increase in sales on a comparable store basis. For this success, Thrift's President and Chief Executive Officer Bob Hannan received *Chain Drug Review's* 1995 Chain Drug Retailer of the Year award.

JCPenney Insurance In 1995 JCPenney insurance companies concluded their sixth consecutive year of record growth. Total revenue, including investment income, increased 22.1 per cent over 1994, while pre-tax income grew 16.7 per cent.

A key source of growth has been the development of strategic business relationships with credit-card issuing organizations. The insurance companies market numerous products – including life, health, accident, and credit insurance – to many credit-card issuers in addition to JCPenney. Strategic partners include nine of the top 10 credit-card issuing U.S. banks, the top two retailers in Canada, and several oil companies. Including the JCPenney file, JCPenney Insurance has direct response access to many millions of American households.

JCPenney Consumer Banking Services JCPenney offers consumer banking services nationwide through its banking operations. The primary function of these operations is the issuance of Visa and MasterCard credit cards and certificates of deposit. Banking assets reached a record $836 million at year end, and active credit-card accounts were 470 thousand.

Testing world markets Research tells us that JCPenney is a recognized name in many countries, and JCPenney private brands have worldwide potential.

As part of our multiple international strategies, the Company currently operates three department stores in foreign countries, two in Mexico and one in Santiago, Chile.

In addition, JCPenney private brand merchandise is available in the Middle East, Manila, and Indonesia through licensed JCPenney Collections Stores. Licensed specialty stores selling private brands, licensed shops in foreign retail stores, and licensed catalog desks all bring JCPenney merchandise to world markets.

Management's Discussion and Analysis of Financial Condition and Results of Operations

While results for 1995 fell short of expectations, the Company's profits and earnings per share achieved the third highest level in the Company's history.

The Company's financial condition remained strong. Cash flow generated from operations exceeded $1 billion, capital investment was at an all time high, and the Company's debt ratio improved and remained better than the Company's target. Also in 1995, to further enhance stockholder value, the Company purchased 7.5 million shares of its common stock and increased the dividend by over 14 per cent.

Over the next three years, the Company plans to continue with an aggressive capital expenditures program currently planned at over $2 billion. Most of the capital investment will be devoted to opening new and relocated JCPenney stores and to remodeling existing store facilities.

In the area of expense management, the Company has made significant progress in the last five years. The ratio of selling, general, and administrative (SG&A) expenses to sales has declined 240 basis points during that time. This improvement has more than offset the impact of generally flat gross margins experienced by the Company and throughout the retail industry over the same period. In 1995, the Company continued to control expenses across all operating areas; however, with sales volume at about the same level as last year, the SG&A ratio increased slightly. Expense management will continue to be a priority.

Looking to 1996 and beyond, the Company remains focused on its commitment to achieving its long term financial goals and to adding value for its stockholders.

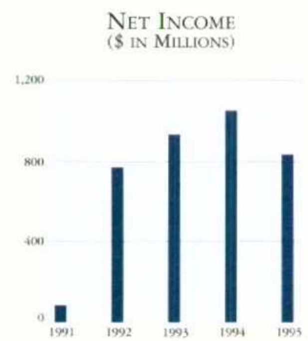
	1995		1994		1993		1992[1]		1991	
REVENUE (In millions)	$	% Change	$	% Change	$	% Change	$	% Change	$	% Change
JCPenney stores	14,973	(0.3)	15,023	6.9	14,056	4.4	13,460	12.1	12,007	(.3)
Comparative store sales per cent increase/(decrease)		(1.4)		6.8		5.3		9.7		(1.5)
Catalog	3,738	(2.1)	3,817	8.6	3,514	11.0	3,166	5.5	3,002	(6.8)
Drug stores[2]	1,851	20.2	1,540	9.0	1,413	2.2	1,383	16.0	1,192	8.6
Comparative store sales per cent increase		5.5		5.5		6.5		10.9		6.1
Total retail sales	20,562	0.9	20,380	7.4	18,983	5.4	18,009	11.2	16,201	(1.0)
JCPenney Insurance	697	22.1	571	20.2	475	22.5	388	18.3	328	28.6
JCPenney National Bank	160	21.7	131	9.5	120	2.0	118	(1.1)	119	2.6
Total revenue	21,419	1.6	21,082	7.7	19,578	5.7	18,515	11.2	16,648	(1.0)

[1] *Comprised 53 weeks, except comparative store sales, which are shown on a 52 week basis.*

[2] *1995 includes sales for Kerr Drug, acquired in February 1995.*

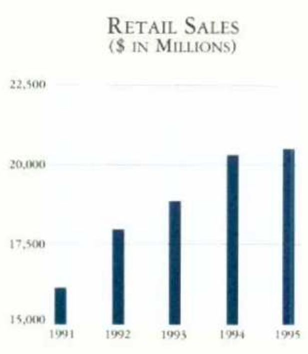
Results of operations

Net income for fiscal 1995 totaled \$838 million after three successive years of record Company earnings. Earnings in 1994 were \$1,057 million and in 1993 were \$940 million. 1995 results were adversely impacted by the softness in consumer demand and the continuing consolidation within the retail industry, both of which contributed to a highly promotional retail environment. On a fully diluted basis, 1995 earnings per share totaled \$3.33 compared with \$4.05 in 1994 and \$3.53 in fiscal 1993. In 1994, net income increased over the prior year as a result of higher sales volumes in both JCPenney stores and catalog.

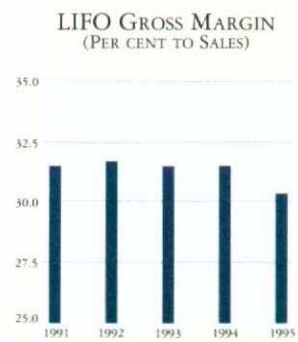


Retail sales in 1995 increased by 0.9 per cent, to \$20.6 billion compared to \$20.4 billion in 1994 and \$19.0 billion in 1993. Sales levels in 1995 were weak throughout the year and particularly during the fourth quarter. Sales were soft across most merchandise lines in JCPenney stores and catalog, reflecting the continuing pressure in the retail sector of the economy.

Sales for JCPenney stores were relatively unchanged in 1995 at \$15.0 billion, about the same level as in 1994 and up from \$14.1 billion in 1993. On a comparable store basis, sales decreased 1.4 per cent in 1995, after posting an increase of 6.8 per cent in 1994. Catalog sales decreased 2.1 per cent to \$3.7 billion compared to \$3.8 billion in 1994 and \$3.5 billion in 1993. Sales for drug stores, which include sales from the 97 Kerr Drug stores acquired in February 1995, increased by 20.2 per cent to \$1.9 billion, compared to \$1.5 billion in 1994 and \$1.4 billion in 1993. Excluding Kerr Drug, drug store sales continued their growth trend, increasing 7.1 per cent in fiscal 1995. On a comparable store basis, drug store sales increased by 5.5 per cent over the prior year in both 1995 and 1994.



Gross margin on retail sales totaled \$6.2 billion in 1995 compared to \$6.4 billion in 1994 and \$6.0 billion in 1993. The decrease in 1995 was principally attributable to weak sales volume and higher markdowns due to the highly competitive and promotional retail environment, particularly in the fourth quarter of the year. In 1994, gross margin increased as a result of favorable sales performance and improved inventory management. As a per cent of sales, gross margin decreased to 30.3 per cent in 1995 from 31.5 per cent in 1994 and 1993. Included in the 1995 gross margin was a last-in, first-out (LIFO) credit of \$21 million. The LIFO benefit was a result of declines in inventory levels. In 1994, the Company recorded a LIFO charge of \$1 million, and in 1993 recorded a \$36 million LIFO credit due to declines in retail prices.

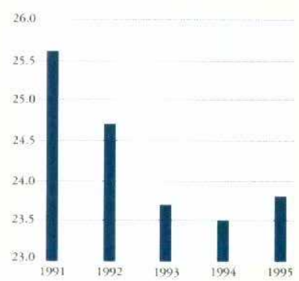


Selling, general, and administrative (SG&A) expenses continued to be well managed and totaled \$4.9 billion in 1995, compared to \$4.8 billion in 1994, and \$4.5 billion in 1993. These expenses increased \$112 million, or 2.3 per cent, over 1994 levels, resulting in part from increases in paper costs and postal rates, which impact catalog and the retail advertising program. Also contributing to the SG&A increase was the acquisition of Kerr Drug. Included in 1995 SG&A expenses was a reduction of \$18 million for non-recurring items. At the end of the year, the Company sold JCPenney Business Services, Inc., a subsidiary which provided authorization, billing,

and other services to third party credit-card issuers, for a pre-tax gain of $67 million. The Company also recorded a $49 million charge, principally related to the early adoption of The Financial Accounting Standards Board's Statement of Financial Accounting Standards (SFAS) No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.* Excluding the effects of paper and postage increases, the Kerr Drug acquisition, and non-recurring charges, SG&A expenses increased by approximately one per cent.

As a per cent of sales, SG&A expenses rose by 30 basis points to 23.8 per cent in 1995 compared to 23.5 per cent in 1994 and 23.7 per cent in 1993. In 1994, SG&A expenses increased due to planned increases in store and catalog advertising.

SG&A EXPENSES
(PER CENT TO SALES)



Net interest expense and credit operations totaled $183 million in 1995 compared with $93 million in 1994 and $73 million in 1993. The increase is principally attributable to two factors: higher interest costs related to the Company's stock buy-back program and capital expenditures, and higher bad debt costs resulting from unfavorable trends in delinquency rates and consumer bankruptcies.

Net interest expense and credit operations increased in 1994 primarily as a result of higher finance charge revenue offset by higher bad debt expense associated with higher levels of customer receivables, and higher interest expense to support the increase in working capital requirements and the stock buy-back program.

The effective income tax rate for 1995 was 37.5 per cent, down from 37.8 per cent in 1994. In 1993, the effective income tax rate was 39.3 per cent, and included a $14 million charge for the revaluation of deferred taxes.

The JCPenney insurance companies continued to show strong growth in operating performance as a result of successful efforts to establish relationships with third party business partners. Pre-tax income was $161 million in 1995, an increase of $23 million, or 16.7 per cent, over 1994's income of $138 million and $120 million in 1993. This growth resulted primarily from favorable trends in premiums and policy retention. Total revenue for 1995 was $697 million, compared with $571 million in 1994 and $475 million in 1993. At year end 1995, the insurance companies had 9.0 million policies and certificates in force, as compared with 7.5 million and 5.8 million in 1994 and 1993, respectively.

Consumer banking, which offers Visa and MasterCard credit cards to consumers, generated pre-tax income of $29 million in 1995 compared with $27 million in 1994 and $29 million in 1993. While results improved in 1995, they were adversely impacted by trends in bad debt. Income in 1994 decreased as a result of higher interest rates on deposits. At the end of 1995, approximately 470 thousand credit cards were active.

Financial condition. The Company's goal is to maintain a strong balance sheet. Solid earnings and consistent cash flow over the past several years have contributed to the Company's strong financial condition. This provides the Company with the flexibility to capitalize on attractive opportunities for growth, increase its dividends, and to periodically purchase its stock – all of which enhance stockholder value.

Total debt, both on and off-balance-sheet, was $6.5 billion at January 27, 1996, up $176 million from $6.4 billion at January 28, 1995, and $5.6 billion at January 29, 1994. During 1995, the Company issued $1 billion of medium term notes with an average maturity of 10 years and an average coupon rate of approximately 6.7 per cent. Additionally, in April 1995 the Company retired, at par, $165 million of its 9.45 per cent Notes due in 1998. During the course of the year, short term debt, net, decreased by $569 million.

Currently the Company's long term debt is rated A+ by Standard and Poor's Corporation, A1 by Moody's Investors Service and A+ by Fitch Investors Service, Inc. The Company's commercial paper is rated A1, P1, and F1 by the three organizations, respectively. These ratings, which are among the highest in the retail industry, reflect the Company's strong balance sheet.

Cash flow generated by operations in 1995 more than met the Company's operating cash requirements. Cash flow generated internally, consisting of net income plus depreciation and amortization, and deferred taxes, totaled $1.3 billion in 1995, which covered the Company's needs for record capital expenditures and dividends. In addition

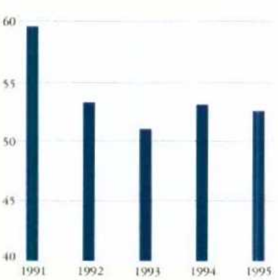
the Company used debt financing to continue its stock buy-back program.

The Company expects to continue generating sufficient cash flow internally to meet substantially all of its cash requirements for working capital, capital expenditures, and dividends.

Capital expenditures, on a cash basis, for fiscal 1995 were the highest in Company history at $717 million, and include the $173 million acquisition cost of seven Woodward & Lothrop stores in the Washington, D.C., area. These stores are scheduled to open in mid-1996 after improvements have been completed. Capital expenditures in fiscal years 1994 and 1993 totaled $550 million and $480 million, respectively. The Company currently expects to spend approximately $700 million per year over the next three years, a significant portion of which will be devoted to new store openings and the modernization of existing stores.

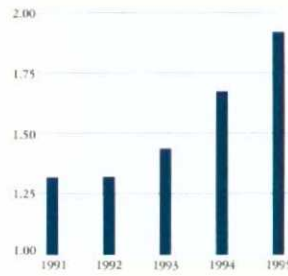
Debt to capital. Over the last several years, the Company's debt capacity has increased as a result of its strong earnings and cash flow. As a measure of the Company's strong balance sheet, the debt to capital ratio improved to 52.6 per cent in 1995, compared to 53.1 per cent in 1994. In 1993, the debt to capital ratio was 51.1 per cent. Debt includes both on and off-balance-sheet financing, as discussed on pages 37 and 38. In 1995, the Company's strong balance sheet provided the opportunity to purchase approximately 7.5 million shares under its current stock buy-back program at a cost of $335 million. Over the past two years, the Company has purchased 17.5 million shares at a cost of $810 million.

DEBT TO CAPITAL RATIO
(PER CENT)



Dividends. On March 13, 1996, the Board of Directors increased the quarterly common dividend by 8.3 per cent to 52 cents per share, or an indicated annual rate of $2.08. Dividends on common shares were paid at a quarterly rate of 48 cents per share in 1995, an increase of 14 per cent compared to 42 cents per share in 1994, and 36 cents per share in 1993, for an annual indicated rate of $1.92 per share in 1995, $1.68 per share in 1994, and $1.44 per share in 1993.

DIVIDENDS PER SHARE
(DOLLARS)



Inflation and changing prices have not had a significant impact on the Company in recent years due to low levels of inflation.

Independent Auditors' Report

To the Stockholders and Board of Directors
of J.C. Penney Company, Inc.:

We have audited the accompanying consolidated balance sheets of J.C. Penney Company, Inc. and Subsidiaries as of January 27, 1996, January 28, 1995, and January 29, 1994, and the related consolidated statements of income, reinvested earnings, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J.C. Penney Company, Inc. and Subsidiaries as of January 27, 1996, January 28, 1995, and January 29, 1994, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in notes 2, 19, and 20 to the consolidated financial statements, the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes,* in 1993, Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* in 1994, and Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* in 1995.

KPMG Peat Marwick LLP

KPMG Peat Marwick LLP
200 Crescent Court, Dallas, Texas 75201
February 22, 1996

Company Statement on Financial Information

The Company is responsible for the information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and are considered to present fairly in all material respects the Company's results of operations, financial position, and cash flows. Certain amounts included in the consolidated financial statements are estimated based on currently available information and judgment of the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company's system of internal controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable costs, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated, and where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The consolidated financial statements have been audited by independent auditors whose report appears to the left. This audit was conducted in accordance with generally accepted auditing standards, which include the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee's responsibilities include recommending to the Board for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The Committee also reviews the independent auditors' audit strategy and plan, scope, fees, audit results, and non-audit services and related fees; internal audit reports on the adequacy of internal controls; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings. The independent auditors and Company personnel, including internal auditors, meet periodically with the Audit Committee to discuss auditing and financial reporting matters.

DA McKay

Donald A. McKay
Senior Vice President and Chief Financial Officer

J.C. Penney Company, Inc. and Subsidiaries

FOR THE YEAR (In millions except per share data)	1995	1994	1993
Revenue			
Retail sales	$ 20,562	$ 20,380	$ 18,983
Revenue of insurance and bank	857	702	595
Total revenue	21,419	21,082	19,578
Costs and expenses			
Cost of goods sold, occupancy, buying, and warehousing costs	14,333	13,970	12,997
Selling, general, and administrative expenses	4,895	4,783	4,508
Costs and expenses of insurance and bank	667	537	446
Net interest expense and credit operations	183	93	73
Total costs and expenses	20,078	19,383	18,024
Income before income taxes, extraordinary charge, and cumulative effect of accounting change	1,341	1,699	1,554
Income taxes	503	642	610
Income before extraordinary charge and cumulative effect of accounting change	838	1,057	944
Extraordinary charge on debt redemption, net of income taxes of $35	—	—	(55)
Cumulative effect of accounting change for income taxes	—	—	51
Net income	$ 838	$ 1,057	$ 940
Earnings per common share			
Primary			
Income before extraordinary charge and cumulative effect of accounting change	$ 3.48	$ 4.29	$ 3.79
Extraordinary charge on debt redemption, net	—	—	(.23)
Cumulative effect of accounting change for income taxes	—	—	.21
Net income	$ 3.48	$ 4.29	$ 3.77
Fully diluted			
Income before extraordinary charge and cumulative effect of accounting change	$ 3.33	$ 4.05	$ 3.55
Extraordinary charge on debt redemption, net	—	—	(.21)
Cumulative effect of accounting change for income taxes	—	—	.19
Net income	$ 3.33	$ 4.05	$ 3.53

See Notes to Consolidated Financial Statements on pages 25 through 36.

Consolidated Balance Sheets

J.C. Penney Company, Inc. and Subsidiaries

Assets (In millions)	1995	1994	1993
Current assets			
Cash and short term investments of $173, $207, and $156	$ 173	$ 261	$ 173
Receivables, net	5,207	5,159	4,679
Merchandise inventory	3,935	3,876	3,545
Prepaid expenses	94	73	80
Total current assets	9,409	9,369	8,477
Properties, net	4,281	3,954	3,818
Investments, primarily insurance operations	1,651	1,359	1,182
Deferred insurance policy acquisition costs	582	482	426
Other assets	1,179	1,038	885
	$17,102	$16,202	$14,788

Liabilities and Stockholders' Equity (In millions)			
Current liabilities			
Accounts payable and accrued expenses	$ 2,404	$ 2,274	$ 2,139
Short term debt	1,509	2,092	1,284
Current maturities of long term debt	—	—	348
Deferred taxes	107	115	112
Total current liabilities	4,020	4,481	3,883
Long term debt	4,080	3,335	2,929
Deferred taxes	1,188	1,039	1,013
Bank deposits	767	702	581
Insurance policy and claims reserves	691	568	540
Other liabilities	472	462	477
Stockholders' equity			
Preferred stock, without par value:			
Authorized, 25 million shares — issued, 1 million shares of Series B LESOP convertible preferred	603	630	648
Guaranteed LESOP obligation	(228)	(307)	(379)
Common stock, par value 50¢:			
Authorized, 1,250 million shares — issued, 224, 227, and 236 million shares	1,112	1,030	1,003
Reinvested earnings	4,397	4,262	4,093
Total stockholders' equity	5,884	5,615	5,365
	$17,102	$16,202	$14,788

Consolidated Statements of Reinvested Earnings

(In millions)			
Reinvested earnings at beginning of year	$ 4,262	$ 4,093	$ 3,531
Net income	838	1,057	940
Net unrealized change in debt and equity securities and currency translation adjustments	72	(21)	1
Retirement of common stock	(301)	(435)	—
Common stock dividends declared	(434)	(392)	(339)
Preferred stock dividends declared, net of taxes	(40)	(40)	(40)
Reinvested earnings at end of year	$ 4,397	$ 4,262	$ 4,093

See Notes to Consolidated Financial Statements on pages 25 through 36.

J.C. Penney Company, Inc. and Subsidiaries

FOR THE YEAR (In millions)	1995	1994	1993
Operating activities			
Net income	$ 838	$1,057	$ 940
Extraordinary charge, net of income taxes	—	—	55
Cumulative effect of accounting change for income taxes	—	—	(51)
Depreciation and amortization	341	323	316
Amortization of original issue discount	4	5	48
Deferred taxes	144	29	100
Change in cash from:			
Customer receivables	73	(326)	(352)
Securitized customer receivables amortized	—	—	(425)
Inventory, net of trade payables	(55)	(352)	(196)
Other assets and liabilities, net	58	2	(149)
	1,403	738	286
Investing activities			
Capital expenditures	(717)	(550)	(480)
Purchases of investment securities	(583)	(476)	(351)
Proceeds from sales of investment securities	420	287	215
Acquisition of Kerr Drug	(74)	—	(12)
	(954)	(739)	(628)
Financing activities			
Change in short term debt	(583)	808	377
Issuance of long term debt	991	500	1,015
Payments of long term debt	(244)	(350)	(875)
Premium on debt retirement	—	—	(76)
Common stock issued, net	124	45	37
Common stock purchased and retired	(335)	(475)	—
Preferred stock retired	(27)	(18)	(18)
Dividends paid, preferred and common	(463)	(421)	(371)
	(537)	89	89
Net increase/(decrease) in cash and short term investments	(88)	88	(253)
Cash and short term investments at beginning of year	261	173	426
Cash and short term investments at end of year	$ 173	$ 261	$ 173
Supplemental cash flow information			
Interest paid	$ 355	$ 301	$ 253
Interest received	$ 54	$ 55	$ 51
Income taxes paid	$ 409	$ 509	$ 486

See Notes to Consolidated Financial Statements on pages 25 through 36.

1 | Nature of Operations

J.C. Penney Company, Inc. is a major retailer with stores located in all 50 states, Puerto Rico, Mexico, and Chile. The major portion of the Company's business is conducted domestically, and consists of providing merchandise and services to consumers through department stores that include catalog departments. The Company's merchandise offerings consist predominantly of family apparel, jewelry, shoes, accessories, and home furnishings. In addition, the Company operates Thrift Drug, Inc. (Thrift Drug). Thrift Drug consists principally of retail drug stores which sell pharmaceuticals and related products as well as general merchandise. Thrift Drug stores are located primarily in the northeastern and southeastern United States.

In addition to its retail operations, the Company operates several insurance companies, the principal of which is J.C. Penney Life Insurance Company, Inc. (collectively, JCPenney Insurance), and consumer banking, which consists principally of JCPenney National Bank (JCPenney National Bank). JCPenney Insurance markets life, health, accident, and credit policies through direct response solicitations throughout the United States and Canada to JCPenney customers and customers of third party credit-card issuers. JCPenney National Bank offers VISA and MasterCard credit cards to consumers; it does not engage in commercial lending activities.

2 | Summary of Accounting Policies

Basis of presentation. Certain prior year amounts have been restated to conform with the presentation for 1995.

Basis of consolidation. The consolidated financial statements present the results of J.C. Penney Company, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Definition of fiscal year. The Company's fiscal year ends on the last Saturday in January. Fiscal year 1995 ended January 27, 1996, 1994 ended January 28, 1995, and 1993 ended January 29, 1994. The accounts of JCPenney Insurance and JCPenney National Bank are on a calendar year basis.

Retail sales. Retail sales include merchandise and services, net of returns, and exclude sales taxes.

Earnings per common share. Primary earnings per share are computed by dividing net income less dividend requirements on the Series B LESOP convertible preferred stock, net of tax, by the weighted average common stock and common stock equivalents outstanding. Fully diluted earnings per share also assume conversion of the Series B LESOP convertible preferred stock into the Company's common stock. Additionally, it assumes adjustment of net income for the additional cash requirements, net of tax, needed to fund the LESOP debt service resulting from the assumed replacement of the preferred dividends with common stock dividends. The number of shares used in the computation of fully diluted earnings per share was 249 million in 1995, 258 million in 1994, and 261 million in 1993.

Cash and short term investments. Cash invested in instruments with remaining maturities of three months or less from time of investment is reflected as short term investments.

Merchandise inventory. Substantially all merchandise inventory is valued at the lower of cost (last-in, first-out) or market, determined by the retail method. The Company applies internally developed indices to measure increases and decreases in its own retail prices.

Depreciation. The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. The principal annual rates of depreciation are two to 10 per cent for buildings and building improvements, five per cent for warehouse fixtures and equipment, 10 per cent for selling fixtures and equipment, and 20 to 33 per cent for computer equipment. Improvements to leased premises are amortized on a straight line basis over the expected term of the lease or their estimated useful lives, whichever is shorter.

Deferred charges. Expenses associated with the opening of new stores are written off in the year of the store opening, except those of stores opened in January, which are written off in the following fiscal year. Deferred policy acquisition costs, principally marketing costs and commissions incurred by JCPenney Insurance to secure new insurance policies, are amortized over the expected premium-paying period of the related policies.

Investments. Effective January 30, 1994, the Company adopted SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* issued by the Financial Accounting Standards Board. Adoption of this statement had no material effect on the Company. The Company's investments, which consist of fixed income securities (principally bonds) held by JCPenney Insurance, marketable equity securities, and JCP Receivables, Inc. asset-backed certificates held by the Company, are classified as available-for-sale and are carried at fair value. Changes in unrealized gains and losses are recorded directly to stockholders' equity, net of applicable income taxes. In 1993, fixed income securities and asset-backed certificates were carried at amortized cost on the consolidated balance sheets.

Insurance policy and claims reserves. Liabilities established by JCPenney Insurance for future policy benefits are computed using a net level premium method including assumptions as to investment yields, mortality, morbidity, and persistency based on the Company's experience. Liabilities for unpaid claims are charged to expense in the period that the claims are incurred.

Advertising. Costs for newspaper, television, radio, and other media advertising are expensed as incurred. Catalog book preparation and printing costs, which are considered direct response advertising, are charged to expense over the life of the catalog, not to exceed six months.

Derivative Financial Instruments. The Company's current derivative positions consist of non-leveraged off-balance-sheet interest rate swaps. These interest rate swaps are accounted for by recording the net interest received or paid as an adjustment to interest expense on a current basis. Gains or losses resulting from market movements are not recognized.

Use of Estimates. The Company's consolidated financial statements have been prepared in conformity with generally accepted accounting principles. Certain amounts included in the consolidated financial statements are estimated based on currently available information and management's judgment as to the outcome of future conditions and circumstances. While every effort is made to ensure the integrity of such estimates, including the use of third party specialists where appropriate, actual results could differ from these estimates.

Impairment of long-lived assets. The Financial Accounting Standards Board issued SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* in March 1995. This statement, which requires that economically impaired long-lived assets, such as property, plant and equipment, be written down to fair value if certain criteria are met, was adopted at the beginning of the 1995 fourth quarter. Consequently, the Company will review its long-lived assets to be held and used, whenever events or circumstances indicate that the carrying value of those assets may not be recoverable. An impairment loss is indicated if the sum of the expected future cash flows is less than the carrying amount of the assets. In this circumstance, the Company recognizes an impairment loss for the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company accounts for long-lived assets to be disposed of at the lower of their carrying amount or fair value less cost to sell once management has committed to a plan to dispose of the assets.

3 | Receivables

(In millions)	1995	1994	1993
Customer receivables serviced	$ 4,688	$ 4,751	$ 4,410
Customer receivables sold	725	725	725
Customer receivables owned	3,963	4,026	3,685
Less allowance for doubtful accounts	84	74	59
Customer receivables, net	3,879	3,952	3,626
JCPenney National Bank receivables	776	729	587
Other receivables	552	478	466
Receivables, net	$ 5,207	$ 5,159	$ 4,679

The Company's policy is to write off accounts when the scheduled minimum payment has not been received for six consecutive months, if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses.

During the period 1988 to 1990, the Company transferred portions of its customer receivables to a trust which, in turn, sold certificates representing undivided interests in the trust in public offerings. Certificates sold during this period totaled $1,400 million. No gain or loss was recognized at the date of sale. As of January 27, 1996, $725 million of the certificates were outstanding and the balance of the receivables in the trust was $1,737 million. The Company owns the remaining undivided interest in the trust not represented by the certificates and will continue to service all receivables for the trust.

Cash flows generated from receivables in the trust are dedicated to payment of interest on the outstanding certificates with stated rates of 8.95 per cent and 9.625 per cent, absorption of defaulted accounts in the trust, and payment of servicing fees to the Company. Reserve funds (fully funded at $91 million) are available if cash flows from the receivables become insufficient to make such payments. None of the reserve funds has been utilized as of January 27, 1996. Additionally, the Company has made available to the trust irrevocable letters of credit of $87 million that may be drawn upon should the reserve funds be exhausted. None of the letters of credit was in use as of January 27, 1996.

4 | Merchandise Inventory

(In millions)	1995	1994	1993
Merchandise inventory, at lower of cost (FIFO) or market	$ 4,161	$ 4,123	$ 3,791
LIFO reserve	(226)	(247)	(246)
Merchandise inventory, at LIFO cost	$ 3,935	$ 3,876	$ 3,545

5 | Properties

(In millions)	1995	1994	1993
Land	$ 216	$ 213	$ 213
Buildings			
Owned	2,410	2,178	2,119
Capital leases	182	186	219
Fixtures and equipment	2,978	2,763	2,693
Leasehold improvements	622	611	575
	6,408	5,951	5,819
Less accumulated depreciation and amortization	2,127	1,997	2,001
Properties, net	$ 4,281	$ 3,954	$3,818

At January 27, 1996, the Company owned 279 retail stores and other units, four catalog distribution centers, one store merchandise distribution center, its home office facility, and the JCPenney Insurance corporate offices.

6 | Capital Expenditures

Capital expenditures, primarily for new and relocated JCPenney stores and for modernizations and updates of existing stores, were as follows:

(In millions)	1995	1994	1993
JCPenney stores:			
New and relocated stores*	$399	$197	$162
Modernizations and updates	134	136	130
Technology and other store improvements	54	78	44
	587	411	336
Catalog	28	21	21
Drug stores	53	59	40
Other	81	53	62
Total capital expenditures	$749	$544	$459

** 1995 total includes $173 million for the purchase of seven Woodward & Lothrop stores in the Washington, D.C., area.*

7 | Investments

Investments at year end 1995 and 1994 were carried at fair value on the consolidated balance sheets. In 1993, fixed income securities held by JCPenney Insurance and asset-backed certificates held by the Company were carried at amortized cost on the consolidated balance sheets. The amortized cost and fair values of investments were as follows:

	1995		1994		1993	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Fixed income securities						
JCPenney Insurance						
U.S. Government obligations	$ 96	$ 104	$ 111	$ 107	$ 139	$ 153
Corporate bonds	349	376	278	266	280	302
Mortgage-backed securities	309	311	216	199	158	164
Other investments	94	97	100	89	93	91
	848	888	705	661	670	710
JCPenney Company						
Asset-backed certificates	431	488	431	453	431	510
Other cash investments	166	168	149	148	1	1
	$ 1,445	$ 1,544	$ 1,285	$ 1,262	$1,102	$1,221
Equity securities						
JCPenney Insurance	$ 37	$ 49	$ 35	$ 37	$ 28	$ 33
JCPenney Company	58	58	58	60	43	47
	$ 95	$ 107	$ 93	$ 97	$ 71	$ 80
Total investments	$ 1,540	$ 1,651	$ 1,378	$ 1,359	$1,173	$1,301

Unrealized capital gains and losses on fixed income and equity securities included in stockholders' equity at year end 1995 were as follows:

(In millions)	Cost or Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Net Unrealized Gains/(Losses)
JCPenney Insurance fixed income securities	$ 848	$ 888	$ 46	$(6)	$ 40
Asset-backed certificates	431	488	57	–	57
Other cash investments	166	168	2	–	2
Equity securities	95	107	15	(3)	12
	$1,540	$1,651	$120	$(9)	$111
Deferred income taxes					41
Total					$ 70

At January 28, 1995, the Company had recorded net unrealized losses of $12 million, net of income taxes, on investments having a fair value of $1,359 million and an amortized cost of $1,378 million.

The scheduled maturities for fixed income securities at year end 1995 were as follows:

(In millions)	Amortized Cost	Fair Value
Due in one year or less	$ 44	$ 45
Due after one year through five years	332	341
Due after five years through 10 years	569	635
Due after 10 years	171	192
	1,116	1,213
Mortgage-backed securities	309	311
Other	20	20
Total	$1,445	$1,544

Realized gains and losses on investment transactions are determined on a first-in, first-out basis, are included in income on the trade date, and are reported as revenue of insurance and bank on the consolidated statements of income. These gains were $4 million in 1995, $7 million in 1994, and $14 million in 1993.

8 | Derivative Financial Instruments

The Company selectively uses non-leveraged, off-balance-sheet derivative instruments to manage its market and interest rate risk, and does not hold derivatives for trading purposes. Current derivative positions consist of off-balance-sheet interest rate swaps which management believes present no significant risk to the Company.

Current derivative positions. In connection with the sale of asset-backed certificates in 1990, the Company entered into two offsetting interest rate swaps, each with a notional principal amount of $375 million. The swaps help to protect certificate holders by reducing the possibility of an early amortization of the principal.

In addition, the Company has in place interest rate swap contracts that were entered into in connection with the issuance of $250 million principal amount of 8.25 per cent sinking fund debentures in August 1992. To date, these swaps, which combined have a notional principal amount equal to the face amount of the debentures, have lowered the effective interest rate on the debentures to approximately seven per cent and have reduced interest expense by about $10 million. These swaps terminate in August 1996.

The counterparties to these contracts are high credit quality commercial banks. Consequently, credit risk, which is inherent in all swaps, has been minimized to a large extent.

The impact of these interest rate swaps on both interest expense and the Company's average long term borrowing rate for 1995, 1994, and 1993 was not material.

9 | Fair Value of Financial Instruments

Estimates of fair value are made at a specific point in time, based on relevant market prices and information about the financial instrument. The estimated fair values of financial instruments presented on the following page are not necessarily indicative of the amounts the Company might realize in actual market transactions. The carrying amount and fair value for the financial assets and liabilities on the consolidated balance sheets at each year end were:

(In millions)	1995 Carrying Amount	1995 Fair Value	1994 Carrying Amount	1994 Fair Value	1993 Carrying Amount	1993 Fair Value
Financial assets						
JCPenney Insurance fixed income securities	$ 888	$ 888	$ 661	$ 661	$ 670	$ 710
Asset-backed certificates	488	488	453	453	431	510
Other cash investments	168	168	148	148	1	1
Equity securities	107	107	97	97	80	80
Receivables, net	5,207	5,207	5,159	5,159	4,679	4,679
Cash and short term investments	173	173	261	261	173	173
Financial liabilities						
Long term debt (excluding capital leases)*	$3,989	$4,185	$ 3,231	$ 3,124	$ 2,802	$ 3,021
Bank deposits	767	696	702	698	581	584
Short term debt	1,509	1,509	2,092	2,092	1,284	1,284
Current maturities of long term debt	—	—	—	—	348	348

*The fair value of the off-balance-sheet interest rate swaps at the end of 1995, 1994, and 1993 was $2 million, $(8) million, and $13 million, respectively.

Fair values for fixed income securities, asset-backed certificates, and equity securities are based on quoted market prices. Fixed income securities and asset-backed certificates were carried at fair value on the consolidated balance sheets at year end 1995 and 1994, and were carried at amortized cost in 1993. The Company believes that the carrying value of existing customer and bank receivables is the best estimate of fair value because of their short average maturity, and bad debt losses can be reasonably estimated and have been reserved. The carrying amount for the Company's cash and short term investments, short term debt, and current maturities of long term debt approximates fair value due to their short maturities. The fair value for long term debt, excluding capital leases, was determined based on the interest rate environment and the Company's credit rating. The fair value of bank deposits was based on the discounted value of contractual cash flows. The fair value of interest rate swaps was estimated based on quotes from brokers, and reflects the estimated amount that the Company would receive or pay to terminate the contracts at the reporting date.

Concentrations of credit risk. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of customer accounts receivable and investments. Concentrations of credit risk for the Company's customer accounts receivable are limited due to the large number of customers comprising the Company's credit card base and their dispersion across the country. With respect to investments held by JCPenney Insurance, the Company limits the credit risk by diversifying its investments by industry sector and by investing primarily in high grade fixed income securities. The result has been a conservative portfolio having an average rating of AA.

10 | Accounts Payable and Accrued Expenses

(In millions)	1995	1994	1993
Trade payables	$ 979	$ 1,014	$ 1,034
Accrued salaries, vacations, profit-sharing, and bonuses	309	336	311
Taxes, including income taxes	362	358	234
Workers' compensation and public liability insurance	132	123	126
Common dividend payable	107	96	85
Other	515	347	349
Total	$2,404	$ 2,274	$ 2,139

11 | Short Term Debt

(In millions)	1995	1994	1993
Commercial paper	$ 1,482	$ 2,074	$ 1,284
Other	27	18	—
Total	$ 1,509	$ 2,092	$ 1,284
Average interest rate at year end	5.7%	5.9%	3.2%

Committed bank credit facilities available to the Company as of January 27, 1996, amounted to $3.0 billion. In 1995, the Company amended its two syndicated revolving credit facilities totaling $3.0 billion with a group of domestic and international banks. These facilities consist of a $1.5 billion, 364-day revolver, and a $1.5 billion, five-year revolver. The 364-day revolver includes a $500 million seasonal credit line for the August to January period, thus allowing the Company to match its seasonal borrowing requirements. These facilities support the Company's short term borrowing program. None of the borrowing facilities was in use as of January 27, 1996.

Also, the Company had $955 million of uncommitted credit lines in the form of letters of credit with seven banks to support its direct import merchandise program. At January 27, 1996, $317 million of letters of credit issued by the Company were outstanding.

12 | Long Term Debt

(In millions)	1995	1994	1993
Original issue discount			
6% debentures, due 2006, $200 at maturity, effective rate 13.2%	$ 108	$ 104	$ 101
Debentures and notes			
5.375% to 7.375%, due 1998 to 2023	2,500	1,500	1,000
8.25% to 8.375%, due 1996 to 2022	250	250	250
9% to 10%, due 1997 to 2021	835	1,000	1,000
Guaranteed LESOP notes, 8.17%, due 1998*	228	307	379
Present value of commitments under capital leases	91	104	127
Other	68	70	72
Long term debt	$ 4,080	$ 3,335	$2,929
Average long term debt outstanding	$ 3,241	$ 2,754	$2,471
Average interest rates	7.9%	8.2%	9.9%

*For further discussion, see LESOP on page 33.

Changes in long term debt (In millions)	1995	1994	1993
Increases			
5.375% to 7.375% notes, due 1998 to 2023	$ 1,000	$ 500	$1,000
Amortization of original issue discount	4	3	48
Other	–	—	16
	1004	503	1,064
Decreases			
Transfers to current maturities of long term debt	—	—	348
8.375% to 10.625% debentures, bonds, and notes, due 1996 to 2021, retired in 1993 and 1995	165	—	872
Other, including LESOP amortization	94	97	86
	259	97	1,306
Net increase/(decrease) in long term debt	$ 745	$ 406	$ (242)

Maturities of long term debt (In millions)

	Long Term Debt	Capital Leases
1996	$ 6	$ 18
1997	257	15
1998	422	13
1999	232	13
2000	307	12
2001 to 2005	1,536	25
Thereafter	1,093	15
Total	$3,853	$111
Less future interest and executory expenses		20
Present value		$ 91

13 | Preferred Stock

In 1988, a leveraged employee stock ownership plan (LESOP) was adopted (see page 33 for further discussion). The LESOP purchased approximately 1.2 million shares of a new issue of Series B convertible preferred stock from the Company. These shares are convertible into shares of the Company's common stock at a conversion rate equivalent to 20 shares of common stock for each share of preferred stock. The conversion price is $30 per common share. The convertible preferred stock may be redeemed at the option of the Company or the LESOP, under certain limited circumstances. The redemption price may be satisfied in cash or common stock or a combination of both at the Company's sole discretion. The dividends are cumulative, are payable semi-annually on January 1 and July 1, and yield 7.9 per cent. The convertible preferred stock issued to the LESOP has been recorded in the

stockholders' equity section of the consolidated balance sheets, and the "Guaranteed LESOP obligation," representing borrowings by the LESOP, has been recorded as a reduction of stockholders' equity. As of January 27, 1996, approximately 827 thousand shares had been allocated to participants' accounts since 1988, and approximately 350 thousand shares were committed to be released in the next three years.

Preferred stock dividends. The preferred dividend is payable semi-annually at an annual rate of $2.37 per common equivalent share. Preferred dividends declared were $48 million in 1995, $50 million in 1994, and $52 million in 1993; on an after tax basis, the dividends amounted to $29 million in 1995, $31 million in 1994, and $31 million in 1993.

Preferred stock purchase rights. In 1990, the Board of Directors declared a dividend distribution of one new preferred stock purchase right on each outstanding share of common stock and authorized the redemption of the old preferred stock purchase rights for five cents per share totaling $12 million. The preferred stock purchase rights, in accordance with the rights agreement, entitle the holder to purchase, for each right held, 1/400 of a share of Series A junior participating preferred stock at a price of $140. The rights are exercisable upon the occurrence of certain events and are redeemable by the Company under certain circumstances, all as described in the rights agreement.

14 Common Stock

The quarterly common dividend was 48 cents per share in 1995, 42 cents per share in 1994, and 36 cents per share in 1993, or an indicated annual rate of $1.92 per share in 1995, $1.68 per share in 1994, and $1.44 per share in 1993. Common dividends declared were $434 million in 1995, $392 million in 1994, and $339 million in 1993.

On March 9, 1994, the Board of Directors approved the purchase of up to 10 million shares of the Company's common stock. This purchase program was completed in January 1995 at a cost of $475 million. All shares were retired and returned to the status of authorized but unissued shares of common stock. A second purchase program, for up to an additional 10 million shares of the Company's common stock, was approved by the Board of Directors on January 23, 1995, and was begun in late January 1995. As of January 27, 1996, the Company had purchased 7.5 million shares for $335 million.

There were approximately 54,000 stockholders of record at year end 1995. In addition, the Company's savings plans, including the LESOP, had 115,000 participants and held 36.1 million shares of the Company's common stock. The savings plans also held 1.0 million shares of preferred stock, convertible into 20.1 million shares of common stock. On a combined basis, these plans held approximately 23 per cent of the Company's common shares after giving effect to the conversion of the preferred stock at the end of fiscal year 1995.

Changes in outstanding common stock	Shares (In thousands)			Paid-in Capital (In millions)		
	1995	1994	1993	1995	1994	1993
Balance at beginning of year	227,441	236,086	234,778	$1,030	$1,003	$ 955
Common stock issued	3,858	1,455	1,308	113	70	48
Common stock purchased and retired	(7,374)	(10,100)	—	(31)	(43)	—
Balance at end of year	223,925	227,441	236,086	$1,112	$1,030	$1,003

Equity Compensation Plan and Non-Associate Directors' Equity Plan. Under the 1993 Equity Compensation Plan (Plan), approved by stockholders in May 1993, which replaced the expiring 1989 Equity Compensation Plan, 11.6 million shares of common stock were reserved for issuance upon the exercise of options and stock appreciation rights and for the payment of stock awards over the five-year term of the Plan. No discount options or tax benefit rights may be issued under the Plan. Participants in the Plan are generally to be selected management associates of the Company and its subsidiaries and affiliates as determined by the committee administering the Plan. It is anticipated that approximately 2,000 associates will be eligible to participate. No awards may be made under the Plan after May 31, 1998. Under the 1993 Non-Associate Directors' Equity Plan (Directors' Plan), which was also approved by stockholders in May 1993, 90,000 shares of common stock were reserved for issuance upon the exercise of stock options and the payment of stock awards over its five-year term. Each director who is presently not an active employee of the Company will automatically be granted annually an option to purchase 800 shares, in tandem with an award of 200 restricted shares of common stock. An initial grant/award in this same amount will also automatically be granted to each new Non-Associate Director upon his or her first being elected as a director. Such stock options will become exercisable six months from the date of grant, but shares acquired upon such exercise will not be transferable until a director terminates service.

Stock options	1995 Shares (In thousands)	1995 Weighted Average Option Price	1994 Shares (In thousands)	1994 Weighted Average Option Price	1993 Shares (In thousands)	1993 Weighted Average Option Price
Balance at beginning of year	8,347	$ 31.36	8,235	$ 27.96	8,844	$ 27.42
Granted	1,230	43.00	997	55.31	159	41.24
Exercised	(689)	25.67	(865)	26.51	(752)	24.49
Expired and cancelled	(21)	38.63	(20)	32.68	(16)	26.89
Balance at end of year	8,867	$ 33.40	8,347	$ 31.36	8,235	$ 27.96

At year end 1995 and 1994, options covering 7.6 million shares and 7.3 million shares, respectively, were excercisable and 8.7 million shares and 10.4 million shares, respectively, were reserved for future grants.

15 | Net Interest Expense and Credit Operations

(In millions)	1995	1994	1993
Short term debt	$ 129	$ 92	$ 43
Long term debt	254	225	246
Income on short term investments	(18)	(16)	(14)
Interest capitalized	(8)	(3)	(4)
Other, net*	(32)	(28)	(30)
Interest expense, net	325	270	241
Finance charge revenue	(631)	(624)	(523)
Credit costs			
Bad debt expense, net	219	177	95
Operating expenses (including third party credit costs)	270	270	260
Net interest expense and credit operations	$ 183	$ 93	$ 73

* *Includes $34 million in each year for interest income from the Company's investment in asset-backed certificates.*

16 | Rent Expense

The Company conducts the major part of its operations from leased premises which include retail stores, distribution centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 20 years; however, most leases will be renewed or replaced by leases on other premises. Rent expense for real property operating leases was:

(In millions)	1995	1994	1993
Minimum rents	$ 245	$ 235	$ 236
Contingent rents based on sales	36	37	37
Total	$ 281	$ 272	$ 273

The Company also leases data processing equipment and other personal property under operating leases of primarily three to five years. Rent expense for personal property leases was $106 million in 1995, $92 million in 1994, and $90 million in 1993.

Future minimum lease payments for noncancelable real and personal property operating leases and subleases as of January 27, 1996, were:

(In millions)	Operating Leases
1996	$ 259
1997	213
1998	183
1999	160
2000	144
Thereafter	706
Total minimum lease payments	$1,665
Present value	$1,000
Weighted average interest rate	10%

The minimum lease payments are shown net of estimated executory costs, which are principally real estate taxes, maintenance, and insurance.

17 | Advertising Costs

Advertising costs consist principally of newspaper, television, radio, and catalog book costs. In 1995, the total cost of advertising charged to expense was $969 million, compared with $912 million in 1994, and $818 million in 1993. The consolidated balance sheets included deferred catalog book costs of $111 million at January 27, 1996, $99 million at January 28, 1995, and $88 million at January 29, 1994, and are included in other assets.

18 | Retirement Plans

(In millions)	1995	1994	1993
Pension			
Service cost	$ 44	$ 57	$ 50
Interest cost	148	134	123
Actual return on assets	(464)	(22)	(236)
Net amortization and deferral	302	(181)	59
Pension charge/(credit)	30	(12)	(4)
Post retirement health care			
Service cost	3	3	3
Interest cost	23	25	24
Net amortization and deferral	(2)	—	—
Post retirement health care charge	24	28	27
LESOP expense	53	53	50
Total retirement plans	$107	$ 69	$ 73

Pension plan. JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months and have attained 21 years of age. In addition, the Company has an unfunded, noncontributory, supplemental retirement program for certain management employees. In general, benefits payable under the principal pension plan are determined by reference to a participant's final average earnings and years of credited service up to 35 years.

In 1995, the Company reduced its discount rate to 7.25 per cent, reflecting the lower interest rate environment. The impact of this change increased the Company's obligation at year end 1995. Pension plan assumptions are reviewed and modified as necessary on an annual basis. The Company made a $104 million contribution to the plan in 1995, $99 million contribution in 1994, and a $65 million contribution in 1993.

Post retirement health care benefits. The Company's retiree health care plan (Retiree Plan) covers medical and dental services, and eligibility for benefits is based on age and years of service. The Retiree Plan is contributory and the amounts paid by retired employees have increased in recent years and are expected to continue to do so. For certain groups of employees, Company contributions toward the cost of retiree coverage will be based on a fixed dollar amount which will vary with years of service, age, and dependent coverage. The Retiree Plan is funded on a pay-as-you-go basis by the Company and retiree contributions.

The Company uses the same discount rate for both its pension plan and Retiree Plan. The health care trend rate was lowered from 9.5 per cent to 9.0 per cent for 1996 with gradual reductions to five per cent by 2004 and beyond. A one per cent increase in the health care trend rate would increase the amount reported for the accumulated obligation by $24 million and would result in $2 million additional expense for 1995.

LESOP. The Company's LESOP, adopted in 1988, is a defined contribution plan which covers substantially all United States employees who have completed at least 1,000 hours of service within a period of 12 consecutive months, and if hired on or after January 1, 1988, have attained 21 years of age.

The LESOP borrowed $700 million at an interest rate of 8.17 per cent through a 10 year loan guaranteed by the Company. The LESOP used the proceeds of the loan to purchase a new issue of convertible preferred stock from the Company. The Company used the proceeds from the issuance of preferred stock to the LESOP to purchase 28 million common shares of the Company in the open market.

The Company has reflected the guaranteed LESOP borrowing as long term debt on the consolidated balance sheets. A like amount of "Guaranteed LESOP obligation" was recorded as a reduction of stockholders' equity. The convertible preferred stock issued to the LESOP for cash was recorded in the stockholders' equity section. As the Company makes contributions to the LESOP, these contributions, plus the dividends paid on the Company's preferred stock held by the LESOP, will be used to repay the loan. As the principal amount of the loan is repaid, the "Guaranteed LESOP obligation" is reduced accordingly.

The amount of LESOP expense recorded by the Company represents its cash contribution to the LESOP.

The following table sets forth the status of the Company's retirement plans:

Retirement plans (In millions)	December 31 1995	1994	1993
Pension			
Present value of accumulated benefits			
Vested	$ 1,817	$ 1,368	$ 1,367
Non-vested	94	75	80
	$ 1,911	$ 1,443	$ 1,447
Present value of projected benefit obligation	$ (2,183)	$ (1,661)	$ (1,781)
Net assets at fair market value	2,292	1,825	1,800
Unrecognized transition asset, net of unrecognized losses	345	200	216
Net prepaid pension cost	$ 454	$ 364	$ 235
Post retirement health care benefits			
Accumulated benefit obligation			
Retirees	$ 249	$ 217	$ 246
Fully eligible active participants	30	43	51
Other active participants	39	40	41
	318	300	338
Unrecognized net gain/(loss)	19	32	(10)
Net liability	$ 337	$ 332	$ 328
Key assumptions			
Rate of return on pension plan assets	9.5%	9.5%	9.5%
Discount rate	7.25%	8.75%	7.25%
Salary progression rate	4.0%	4.0%	4.0%

Total assets and equity (In millions)	Savings Plans December 31 1995	1994	1993	Pension December 31 1995	1994	1993
JCPenney preferred and common stock	$ 2,714	$ 2,662	$3,030	$ —	$ —	$ —
Equity securities	203	120	117	1,661	1,288	1,424
Fixed income investments	1,199	1,048	1,091	574	473	302
LESOP loan obligation, including accrued interest of $11, $14, and $17	(279)	(358)	(431)	—	—	—
Other assets, net	77	63	47	57	64	74
Net assets	$3,914	$3,535	$3,854	$2,292	$1,825	$1,800

Changes in fair value of net assets (In millions)	Savings Plans December 31 1995	1994	1993	Pension December 31 1995	1994	1993
Net assets at beginning of year	$3,535	$3,854	$2,903	$1,825	$1,800	$1,585
Company contribution	53	53	50	104	99	65
Participants' contributions	209	203	184	—	—	—
Gains/(losses)	425	(280)	984	464	22	236
LESOP interest expense	(23)	(30)	(35)	—	—	—
Benefits paid	(285)	(265)	(232)	(101)	(96)	(86)
Net assets at end of year	$3,914	$3,535	$3,854	$2,292	$1,825	$1,800

19 Non-Recurring Items

For 1995, non-recurring items generated a pre-tax reduction in expenses of $18 million; the reduction is reported as a component of SG&A expenses in the consolidated statements of income. The net reduction consisted of two items. In the fourth quarter of 1995, the Company sold JCPenney Business Services, Inc., a subsidiary which provided credit authorization, billing, and other services to third party credit-card issuers for a cash purchase price of $96 million. The sale generated a pre-tax gain of $67 million. Also in fourth quarter 1995, the Company recorded a $49 million charge, or 12 cents per share, for the early adoption of SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.* The charge related primarily to the write down of buildings and improvements for JCPenney stores. Fair value for these assets was based on discounted future cash flows.

20 Taxes

The Company adopted SFAS No. 109, *Accounting for Income Taxes*, effective January 31, 1993. This statement requires an asset and liability approach to accounting for differences between the tax basis of an asset or liability and its reported amount in the financial statements (temporary differences). Deferred taxes are determined by applying the provisions of enacted tax laws, and adjustments are required for changes in tax laws and rates. Deferred taxes reflected on the balance sheet were reduced by $51 million, and a cumulative adjustment was recorded to increase net income by the same amount, using current tax rates in effect at the beginning of fiscal 1993.

Deferred tax assets and liabilities reflected on the Company's consolidated balance sheet at January 27, 1996, were measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The major components of deferred tax liabilities/(assets) at January 27, 1996, were as follows:

Temporary differences (In millions)	1995	1994
Assets:		
Workers' compensation/public liability	$(101)	$(100)
Accounts receivable	(33)	(29)
Restructuring reserve	(16)	(18)
Other	—	(60)
Liabilities:		
Retirement plans	51	12
Leases	332	338
Inventory	104	94
Depreciation	774	757
Deferred acquisition costs	174	160
Other	10	—
Total	$1,295	$1,154

No valuation allowances have been considered necessary for any year. The Company believes that the existing deductible temporary differences will be offset by future reversals of differences generating taxable income.

Income tax expense (In millions)	1995	1994	1993
Current			
Federal	$ 306	$ 521	$ 443
State and local	56	92	67
	362	613	510
Deferred			
Federal	124	25	80
State and local	17	4	20
	141	29	100
Total	$ 503	$ 642	$ 610
Effective tax rate	37.5%	37.8%	39.3%

	Amounts (In millions)			Per cent of Pre-tax Income		
Reconciliation of tax rates	1995	1994	1993	1995	1994	1993
Federal income tax at statutory rate	$ 469	$ 594	$ 544	35.0	35.0	35.0
State and local income taxes, less federal income tax benefit	49	65	58	3.6	3.8	3.7
Revaluation of deferred taxes	—	—	14	—	—	.9
Tax effect of dividends on allocated LESOP shares	(11)	(9)	(9)	(.8)	(.5)	(.5)
Tax credits and other	(4)	(8)	3	(.3)	(.5)	.2
Total	$ 503	$ 642	$ 610	37.5	37.8	39.3

21 | Segment Reporting

The Company operates predominantly in two business segments, retail and insurance. Banking operations are shown in the table below only for purposes of reconciling to total Company consolidated amounts.

(In millions)		Revenue	Pre-tax Income*	Total Assets	Depreciation and Amortization	Capital Expenditures
Retail	1995	$20,562	$1,151	$14,525	$338	$742
	1994	20,380	1,534	14,057	320	534
	1993	18,983	1,405	12,888	313	452
Insurance	1995	$ 697	$ 161	$ 1,741	$ 3	$ 7
	1994	571	138	1,360	3	10
	1993	475	120	1,246	3	7
Banking	1995	$ 160	$ 29	$ 836	—	—
	1994	131	27	785	—	—
	1993	120	29	654	—	—
Total Company	1995	$21,419	$1,341	$ 17,102	$341	$749
	1994	21,082	1,699	16,202	323	544
	1993	19,578	1,554	14,788	316	459

* *Income before income taxes, extraordinary charge, and cumulative effect of accounting change.*

QUARTERLY DATA (UNAUDITED)

	First			Second			Third			Fourth		
(In millions except per share data)	1995	1994	1993	1995	1994	1993	1995	1994	1993	1995	1994	1993
Retail sales	4,367	4,350	3,964	4,435	4,242	3,963	5,128	5,149	4,735	6,632	6,639	6,321
Per cent increase/(decrease)	0.4	9.7	4.5	4.6	7.1	4.6	(0.4)	8.7	9.1	(0.1)	5.0	3.9
Total revenue	4,564	4,519	4,106	4,643	4,412	4,106	5,352	5,328	4,888	6,860	6,823	6,478
Per cent increase	1.0	10.0	4.8	5.3	7.4	5.0	0.4	9.0	9.3	0.5	5.3	4.3
LIFO gross margin	1,370	1,395	1,280	1,292	1,282	1,191	1,592	1,661	1,530	1975	2,072	1,985
LIFO gross margin, per cent of retail sales	31.4	32.1	32.3	29.1	30.2	30.1	31.0	32.2	32.3	29.8	31.2	31.4
Selling, general, and administrative expenses, per cent of retail sales	26.3	25.1	25.9	25.0	25.5	25.8	23.4	23.4	24.2	21.7	21.2	20.8
Income before extraordinary charge and cumulative effect of accounting change	156	223	172	116	132	112	240	274	221	326	428	439
Net income	156	223	206	116	132	112	240	274	185	326	428	437
Income per share before extraordinary charge and cumulative effect of accounting change												
Primary	.63	.88	.68	.46	.52	.43	1.00	1.11	.88	1.39	1.78	1.80
Fully diluted	.61	.84	.65	.46	.51	.42	.95	1.04	.83	1.31	1.66	1.65
Net income per common share												
Primary	.63	.88	.82	.46	.52	.43	1.00	1.11	.73	1.39	1.78	1.79
Fully diluted	.61	.84	.78	.46	.51	.42	.95	1.04	.69	1.31	1.66	1.64
Dividends per common share	.48	.42	.36	.48	.42	.36	.48	.42	.36	.48	.42	.36
Common stock price range												
High	47	59	45	50	54	49	50	54	52	49	52	56
Low	41	50	36	43	47	41	43	47	39	42	39	49
Close	44	54	43	49	49	45	44	51	52	46	41	52

General. The following information is provided as a supplement to the Company's audited financial statements. Its purpose is to facilitate an understanding of the Company's credit operations, capital structure, and cash flows.

Credit Operations. The following table presents the results of the Company's proprietary credit card operation, measuring on an all-inclusive basis the costs of granting, operating, and financing credit, net of finance charge revenue. This presentation does not include any profits derived from merchandise and services purchased by customers. Revenue, costs, and expenses contained in the table below relate to all customer accounts receivable generated and serviced by the Company, including those recorded as sold under asset securitization transactions. This presentation is designed to measure on an "economic basis" the total pre-tax cost of providing the JCPenney credit card to customers.

Pre-tax cost of JCPenney credit card

(In millions)	1995	1994	1993
Finance charge revenue			
On receivables owned	$ (631)	$ (624)	$ (523)
On receivables sold	(112)	(105)	(129)
Total	(743)	(729)	(652)
Bad debt expense	256	208	128
Operating expenses (including in-store costs)	255	268	265
Cost of capital	415	404	400
Total	926	880	793
Pre-tax cost of JCPenney credit	$ 183	$ 151	$ 141
Per cent of JCPenney credit sales	2.0%	1.6%	1.6%

The cost of capital shown above represents the cost of financing both Company-owned accounts receivable and securitized accounts receivable. The cost of the sold receivables is the actual interest paid to certificate holders. The owned accounts receivables are financed with both debt and equity capital. The debt component uses the total Company weighted average interest rate, while the equity component uses the Company's minimum return on equity objective of 16 per cent. On a combined basis, for both owned and sold receivables, the debt and equity components of the total capital requirements were 88 per cent debt and 12 per cent equity, which approximates the finance industry standard debt to equity ratio.

Credit sales (JCPenney stores and catalog)	1995 Amounts (In billions)	1995 Per cent of Eligible Sales	1994 Amounts (In billions)	1994 Per cent of Eligible Sales	1993 Amounts (In billions)	1993 Per cent of Eligible Sales
JCPenney credit card	$ 9.0	48.4	$ 9.4	49.6	$ 8.7	49.6
American Express, Discover, MasterCard, and Visa	3.7	19.8	3.4	17.9	2.8	16.1
Total	$12.7	68.2	$12.8	67.5	$11.5	65.7

Key JCPenney credit card information

(In millions)	1995	1994	1993
Number of accounts serviced with balances	17.0	17.6	17.2
Total customer receivables serviced	$4,688	$4,751	$4,410
Average customer receivables financed	$4,258	$4,197	$3,767
Average account balances (in dollars)	$ 275	$ 269	$ 256
Average account maturity (months)	4.3	4.2	4.0

Capital structure. The Company's objective is to maintain a capital structure that will assure continuing access to financial markets so that it can, at reasonable cost, provide for future needs and capitalize on attractive opportunities for growth.

The debt to capital ratio shown in the table below includes both debt recorded on the Company's consolidated balance sheet as well as off-balance-sheet debt related to operating leases and the securitization of a portion of the Company's customer accounts receivable (asset-backed certificates).

Debt to capital (In millions)	1995	1994	1993
Short term debt, net of cash investments	$ 1,168	$ 1,737	$ 1,127
Long term debt, including current maturities	4,080	3,335	3,277
	5,248	5,072	4,404
Off-balance-sheet debt			
Present value of operating leases	1,000	1,000	900
Securitization of accounts receivable, net	294	294	294
Total debt	6,542	6,366	5,598
Consolidated equity	5,884	5,615	5,365
Total capital	$12,426	$11,981	$10,963
Per cent of total debt to capital	52.6%	53.1%	51.1%

The Company builds its capital base according to the different needs and credit characteristics of its customer receivables and its other core retail assets. Customer receivables are highly diversified and predictable financial assets, very different from the core assets of a retailer, which include fixed assets and inventories for stores and catalog. Accordingly, the Company finances receivables with more leverage, much like a finance company. The standards for these assets are a debt ratio of approximately 88 per cent, and interest coverage of about 1.5 times. Core assets are financed with less leverage and are more comparable to the leverage of non-retail industrial companies with strong credit ratings. The Company's capital structure at the end of fiscal year 1995 was:

(In millions)	Customer Receivables	Core Assets	Combined
Debt	$ 4,029	$ 2,513	$ 6,542
Equity	575	5,309	5,884
Total capital	$ 4,604	$ 7,822	$ 12,426
Debt to capital per cent	87.5%	32.1%	52.6%

The historical debt to capital per cent and fixed charge coverage for the prior three years, on a separate and combined basis, was:

Debt to capital per cent

	1995	1994	1993
Combined	52.6	53.1	51.1
Core assets	32.1	31.1	27.1
Customer receivables	87.5	87.5	87.5

Fixed charge coverage

	1995	1994	1993
Combined	3.4	4.5	4.3
Core assets	6.0	9.1	8.7
Customer receivables	1.5	1.5	1.4

Financing costs incurred by the Company to finance its operations, including those costs related to off-balance-sheet liabilities, were as follows:

(In millions)	1995	1994	1993
Interest expense, net	$325	$270	$241
Interest portion of LESOP debt payment	23	30	35
Off-balance-sheet financing costs			
Interest imputed on operating leases	102	95	97
Asset-backed certificates interest	68	68	88
Total	$518	$463	$461

Earnings before interest, taxes, depreciation, and amortization (EBITDA). Management believes that a key measure of cash flow generated is earnings before interest, taxes, depreciation, and amortization (EBITDA). EBITDA is not intended to represent cash flow or any other measure of performance in accordance with generally accepted accounting principles, but is included as a tool for analyzing the Company's financial condition. The following schedule shows the calculation of EBITDA and EBITDA margin as a per cent of total revenue.

(In millions)	1995	1994	1993
Income before income taxes, extraordinary charge, and cumulative effect of accounting change	$ 1,341	$ 1,699	$ 1,554
Financing costs	518	463	461
Depreciation and amortization, including operating leases	481	449	416
EBITDA	$ 2,340	$ 2,611	$ 2,431
Total revenue	$ 21,419	$ 21,082	$ 19,578
EBITDA per cent of total revenue	10.9%	12.4%	12.4%

Credit ratings. Over the years, the Company has maintained one of the highest credit ratings in the retail industry. The Company's objective is to maintain a strong investment grade rating on its senior long term debt, and A1/P1/F1 ratings on commercial paper. Currently, the credit ratings for the Company are as follows:

	Long Term Debt	Commercial Paper
Standard & Poor's Corporation	A+	A1
Moody's Investors Service	A1	P1
Fitch Investors Service, Inc.	A+	F1

J.C. Penney Company, Inc. and Subsidiaries

(In millions except per share data)	1995	1994	1993[1]	1992	1991[2]
Results for the year					
Total revenue	$ 21,419	$ 21,082	$ 19,578	$ 18,515	$ 16,648
Retail sales	$ 20,562	$ 20,380	$ 18,983	$ 18,009	$ 16,201
Per cent increase/(decrease)	0.9	7.4	5.4	11.2	(1.0)
LIFO gross margin, per cent of retail sales	30.3	31.5	31.5	31.7	31.5
FIFO gross margin, per cent of retail sales	30.2	31.5	31.3	31.5	30.9
Selling, general, and administrative expenses, per cent of retail sales	23.8	23.5	23.7	24.7	25.6
Depreciation and amortization	$ 341	$ 323	$ 316	$ 310	$ 316
Income before income taxes, extraordinary charges, and cumulative effect of accounting changes	$ 1,341	$ 1,699	$ 1,554	$ 1,259	$ 468
Percent to total revenue	6.3	8.1	7.9	6.8	2.8
Income taxes	$ 503	$ 642	$ 610	$ 482	$ 204
Income before extraordinary charge and cumulative effect of accounting changes	$ 838	$ 1,057	$ 944	$ 777	$ 264
Net income	$ 838	$ 1,057	$ 940	$ 777	$ 80
Percent to total revenue	3.9	5.0	4.8	4.2	.5
Earnings per common share					
Primary					
Before extraordinary charge and cumulative effect of accounting changes	$ 3.48	$ 4.29	$ 3.79	$ 3.15	$ .99
Net income	$ 3.48	$ 4.29	$ 3.77	$ 3.15	$ .20
Fully diluted					
Before extraordinary charge and cumulative effect of accounting changes	$ 3.33	$ 4.05	$ 3.55	$ 2.95	$ .99
Net income	$ 3.33	$ 4.05	$ 3.53	$ 2.95	$ .20
Per common share					
Dividends	$ 1.92	$ 1.68	$ 1.44	$ 1.32	$ 1.32
Stockholders' equity	$ 24.76	$ 23.45	$ 21.53	$ 19.17	$ 17.33
Return on stockholders' equity	14.9	19.7	20.1	18.6	12.0
Financial position					
Receivables, net	$ 5,207	$ 5,159	$ 4,679	$ 3,750	$ 4,131
Merchandise inventories	$ 3,935	$ 3,876	$ 3,545	$ 3,258	$ 2,897
Properties, net	$ 4,281	$ 3,954	$ 3,818	$ 3,755	$ 3,633
Capital expenditures	$ 749	$ 544	$ 459	$ 494	$ 506
Total assets	$ 17,102	$ 16,202	$ 14,788	$ 13,467	$ 12,444
Total debt	$ 5,589	$ 5,427	$ 4,561	$ 4,078	$ 4,062
Stockholders' equity	$ 5,884	$ 5,615	$ 5,365	$ 4,705	$ 4,188
Number of common shares outstanding at year end	224	227	236	235	233
Weighted average common shares					
Primary	229	237	239	236	234
Fully diluted	249	258	261	258	234
Number of employees at year end (In thousands)	205	202	193	192	185

[1] *Excluding the impact of the tax rate increase on deferred taxes, after tax income was $958 million, or $3.60 per share, on a fully diluted basis.*

[2] *Excluding the effect of nonrecurring items and the cumulative effect of an accounting change, after tax income was $528 million, or $2.00 per share, on a fully diluted basis.*

J.C. Penney Company, Inc. and Subsidiaries

	1995	1994	1993	1992	1991
JCPenney stores					
Number of stores					
Beginning of year	1,233	1,246	1,266	1,283	1,312
Openings	43	29	24	33	38
Closings	(38)	(42)	(44)	(50)	(67)
End of year	1,238	1,233	1,246	1,266	1,283
Gross selling space (In million sq. ft.)	114.3	113.0	113.9	114.4	114.5
Sales including catalog desks (In millions)	$17,930	$18,048	$16,846	$15,698	$14,277
Sales per gross square foot[1]	$ 156	$ 159	$ 146	$ 137	$ 125
Catalog					
Number of catalog units					
JCPenney stores	1,228	1,233	1,246	1,266	1,283
Freestanding sales centers and merchants	548	552	543	640	697
Drug stores	106	94	101	128	134
Other, principally outlet stores	17	16	14	14	16
Total	1,899	1,895	1,904	2,048	2,130
Number of distribution centers	6	6	6	6	6
Distribution space (In million sq. ft.)	11.4	11.4	11.4	11.4	11.4
Sales (In millions)	$ 3,738	$ 3,817	$ 3,514	$ 3,166	$ 3,002
Drug stores					
Number of stores					
Beginning of year	526	506	548	530	487
Openings	37	46	35	30	46
Kerr Drug acquisition	97	—	—	—	—
Closings	(15)	(26)	(77)	(12)	(3)
End of year	645	526	506	548	530
Gross selling space (In million sq. ft.)	6.2	4.5	4.6	5.2	5.0
Sales (In millions)	$ 1,851	$ 1,540	$ 1,413	$ 1,383	$ 1,192
Sales per gross square foot[1]	$ 253	$ 243	$ 235	$ 211	$ 201
JCPenney Insurance (In millions)					
Revenue	$ 697	$ 571	$ 475	$ 388	$ 328
Policies and certificates in force	9.0	7.5	5.8	4.6	4.3
Amount of life insurance in force	$ 9,559	$ 8,780	$ 7,627	$ 6,552	$ 5,419
Total assets	$ 1,741	$ 1,360	$ 1,246	$ 1,033	$ 857

[1] *1992 is presented on a 52 week basis.*

JCPenney is a dedicated partner in America's communities. This partnership is rooted in part in the Company's traditions, but also in a sense of responsibility and concern for the communities where we do business.

Community relations. During 1995, the Company's charitable contributions totaled $27 million nationwide, most of which was contributed to community charitable organizations by JCPenney stores and other units. Priority was given to programs that address our target issues of pre-kindergarten through twelfth-grade education; encouraging and promoting volunteerism; and supporting the United Way. In addition to financial support for education, JCPenney hosted its first Education Expo, a one-day conference for Home Office associates on parenting and education issues, and broadcast the first in a series of broadcasts titled the "JCPenney Leadership Institute on School Improvement" to 160 stores nationwide.

Major commitments in our support of volunteerism included the expansion of our Golden Rule Award Program to 220 markets. These awards publicly honor community volunteers and support their work with contributions. The James Cash Penney Awards for Community Service provide similar recognition to JCPenney associates for outstanding volunteer activities. The two programs contributed approximately $1.8 million to local charitable organizations. The 1995 United Way campaign raised a Company record of over $16 million in JCPenney associate and unit pledges for nearly 1,000 United Way organizations.

The Company has a number of programs that support wellness and physical fitness for women and children. JCPenney continued as the national presenting sponsor of the Susan G. Komen Breast Cancer Foundation Race for the Cure, and JCPenney associates supported local races in 57 cities as volunteers, runners or walkers. Raising more than $620,000 for the prevention and cure of birth defects, associates actively supported the March of Dimes WalkAmerica in 101 markets. More than 46,000 children were photographed and fingerprinted at JCPenney stores nationwide during a two-day child health and safety event, with proceeds of over $225,000 benefiting St. Jude's Children's Research Hospital. Now in its 19th year, the JCPenney Golf Classic has raised $8.4 million for Suncoast Charities of Florida since its inception. Additionally, the JCPenney/LPGA Skins Tournament raised over $350,000 for Easter Seals of North Texas in 1995.

The fourth JCPenney Juanita Kreps Award Honoring the Spirit of the American Woman was awarded to Sally Ride, the first American woman to fly in space. She was recognized for her contributions as a former NASA astronaut, a university professor of astrophysics, and as the director of the California Space Institute. In 32 U.S. cities, JCPenney actively supported women's conferences and expos, bringing together exhibits, information, fun, and entertainment focusing on fashion, home decorating, health and fitness, finance, travel, and food. Included in these conference programs is the Spirit of the American Woman Award given to an outstanding local woman for her contribution to her community, her involvement with her family, or her achievements in her career. During 1995, the Company participated in over 30 special events and conferences through our Multicultural Affairs department, including our Seventh Annual Hispanic Designers Model Search. Since 1993, the Company has served as the retail sponsor of the Essence Awards and, in 1995, served as a major sponsor of the first Bravo Awards in cooperation with the National Council of La Raza.

Minority and women-owned businesses. JCPenney's Minority Supplier Development Program was established in 1972, when we also became a corporate member of the National Minority Supplier Development Council (NMSDC), a nationwide link between corporations and minority-owned businesses. NMSDC contributes significantly to our ongoing efforts toward the development of mutually beneficial business relationships with minority-owned businesses. Through continued participation in national and local conferences and trade fairs, purchases of merchandise and services from minority and women-owned businesses for 1995 were $392 million and $187 million, respectively. Additionally, the Company had relationships with 14 minority-owned banks, including one women-owned bank. The Company continued its $1 million investment in the NMSDC's Business Consortium Fund, which makes loans to minority businesses.

Annually, JCPenney's Minority and Women-Owned Supplier Development Awards Program honors associates and suppliers. Associates are honored for their continuous efforts in developing minority supplier relationships. Suppliers are honored for outstanding performance demonstrated in supplying merchandise and services to the Company.

Environmental affairs. JCPenney is committed to doing business in an environmentally responsible manner, with a determination to make environmental considerations a part of corporate decision making and policy. Under the direction of an Environmental Affairs Committee composed of senior officers, the Company continuously seeks to assure that its operations, to the fullest extent feasible, preserve and improve the environment and protect the health and safety of associates, customers, and our communities. The Committee has set forth a Statement of Principles on the Environment reflecting the Company's commitment to these goals.

The Company's Environmental Issues Task Force consists of various subcommittees that are studying specific matters such as merchandise packaging, recycling, and trash disposal. The Company currently uses recycled-content paperboard for all apparel, jewelry, and gift boxes and continues to explore sources of recycled-content paper for its advertising supplements, catalogs, and other printed material. Stores recycle most of the corrugated cardboard boxes in which merchandise shipments are received.

Seventy-nine per cent of waste from our Catalog distribution centers is recycled, including paper, glass, aluminum, and batteries. Office paper, periodicals, catalogs, aluminum and plastic are recycled at the Company's Home Office, as well as in a number of other facilities. In addition, an Environmental Packaging Excellence Award encourages environmental consciousness by recognizing associates who develop packaging solutions that meet Company environmental criteria.

JCPenney stores and other Company facilities have joined forces with the Environmental Protection Agency (EPA), through its Green Lights Program, to reduce air pollution through the use of energy-efficient lighting and lighting controls. The EPA also selected one of the Company's stores in Atlanta, Georgia, as an Energy Star Showcase Building to demonstrate the profitability and environmental benefits of a wide variety of energy efficient building technologies. In 1995, the Company received a commendation plaque from the EPA recognizing the successful completion of the Atlanta Showcase store.

Copies of the Company's Special Report Update on its Environmental Responsibility, including the Company's Statement of Environmental Principles, may be obtained as indicated on page 44 of this Annual Report.

Equal employment opportunity. The Company adheres to a policy of equal employment opportunity. The following employment information summary represents associates of J.C. Penney Company, Inc. and subsidiaries, excluding associates in Puerto Rico, Canada, Chile, and Mexico. The information provided delineates minority and female representation in major job categories.

	Total Employed		Per cent Female		Per cent Minority	
Employment information	1995	1991	1995	1991	1995	1991
Officials, managers, and professionals	19,346	19,173	49.2	45.3	13.6	11.0
Management trainees	542	496	70.5	67.9	34.1	21.0
Sales workers	107,329	94,479	87.8	87.6	21.6	17.0
Office and clerical workers	33,786	31,086	88.6	89.5	20.9	16.2
Technicians, craft workers, operatives, laborers, and service workers	41,354	38,253	67.8	72.5	26.7	21.6
Total	202,357	183,487	80.1	80.3	21.8	17.2

CORPORATE GOVERNANCE

The Company is aware that many of its stockholders are interested in matters of corporate governance. JCPenney shares this interest and is, and for many years has been, committed to assuring that the Company is managed in a way that is fair to all its stockholders, and which allows its stockholders to maximize the value of their investment by participating in the present and future growth of JCPenney.

Independent Board of Directors. In keeping with its long-standing practice, the Company's Board continues to be an independent board under any reasonable definition. Nominees for directors are selected by a committee composed entirely of directors who are not Company employees. The wide diversity of expertise, experience, and achievements that the directors possess in business, investments, large organizations, and public affairs allows the Board to most effectively represent the interests of all the Company's stockholders.

Independent committees. The Audit Committee, Benefit Plans Review Committee, Committee on Directors, Personnel and Compensation Committee, and the Public Affairs Committee, all standing committees of the Board of Directors, are composed entirely of directors who are not employees of the Company. These committees, as well as the entire Board, consult with and are advised by outside consultants and experts in connection with their deliberations as needed.

Executive compensation. A significant portion of the cash compensation received by the Company's executive officers consists of performance incentive compensation payments derived from compensation plan "values." The amounts of these plan values are directly related to the annual and long-term sales and earnings of the Company and, consequently, vary from year to year based upon Company performance. The total compensation package for the Company's executive officers is set by the Personnel and Compensation Committee, which is composed entirely of directors who are not employees of JCPenney and which receives the advice of independent outside consultants. Please refer to the Company's 1996 Proxy Statement for a report from the Company's Personnel and Compensation Committee describing how compensation determinations are made.

Confidential voting. The Company has previously adopted a confidential voting policy statement. Under this policy, all proxy (voting instruction) cards, ballots, and vote tabulations that identify the particular vote of a stockholder are kept secret from the Company, its directors, officers, and employees. Proxy cards are returned in envelopes directly to the tabulator, who receives and tabulates the proxies. The final tabulation is inspected by inspectors of election who are independent of the Company, its directors, officers, and employees. The identity and vote of a stockholder is not disclosed to the Company, its directors, officers, or employees, or any third party except (i) to allow the independent election inspectors to certify the results of the vote; (ii) as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company; (iii) in the event of a proxy solicitation based on an opposition proxy statement filed, or required to be filed, with the Securities and Exchange Commission; or (iv) in the event a stockholder has made a written comment on such material.

Board of Directors

M. Anthony Burns[1,2,5]
Chairman, President and Chief Executive Officer, Ryder System, Inc.

Colby H. Chandler[3,4]
Formerly Chairman and Chief Executive Officer, Eastman Kodak Company

William R. Howell[6]
Chairman of the Board

Vernon E. Jordan, Jr.[2,3,4]
Senior Partner, Law Firm of Akin, Gump, Strauss, Hauer & Feld

George Nigh[2,3,4]
President, University of Central Oklahoma and Formerly Governor of Oklahoma

James E. Oesterreicher[6]
Vice Chairman of the Board and Chief Executive Officer

Jane C. Pfeiffer[3,4,5]
Independent Management Consultant

Ann W. Richards[1,2]
Senior Advisor, Law Firm of Verner, Liipfert, Bernhard, McPherson & Hand, and Formerly Governor of Texas

Charles S. Sanford, Jr.[1,3,6]
Chairman and Chief Executive Officer, Bankers Trust New York Corporation and Bankers Trust Company

R. Gerald Turner[1,5]
President, Southern Methodist University

W. Barger Tygart
President and Chief Operating Officer

Joseph D. Williams[1,2,5]
Retired Chairman and Chief Executive Officer, Warner-Lambert Company

Chairman of the Board

William R. Howell
Chairman of the Board

Management Committee

John T. Cody, Jr.
President of JCPenney Stores

Gary L. Davis
Senior Vice President, Director of Personnel and Administration

Gale Duff-Bloom
President, Marketing and Company Communications

David V. Evans
Senior Vice President, Director of Planning and Information Systems

John E. Fesperman
Senior Vice President, Director of Support Services and Subsidiary Operations

Thomas D. Hutchens
President of Merchandising Worldwide

Charles R. Lotter
Executive Vice President, Secretary and General Counsel

William E. McCarthy
President of Catalog and Distribution

Donald A. McKay
Senior Vice President and Chief Financial Officer

James E. Oesterreicher
Vice Chairman of the Board and Chief Executive Officer

Ted L. Spurlock
Senior Vice President, Director of Financial Services and Government Relations

W. Barger Tygart
President and Chief Operating Officer

Stores, Merchandise, and Catalog

J. Thomas Arthur
Divisional Vice President, Director of Merchandising, Catalog Division

Thomas B. Ashmore
President, Ten Market Region

Marshall Beere
Divisional Vice President, Director of Merchandising, Women's Division

Andrew Cumming
Divisional Vice President, Director of Merchandising, Children's and Family Shoes Division

Marilee J. Cumming
President, Women's Apparel Division

Kay E. Egan
Divisional Vice President, Director of Merchandising, Home and Leisure Division

James A. Fike
Vice President, Director of Operations, Services, and Systems

Jack Fleischer
Divisional Vice President, Director of Merchandising, Men's Division

David E. Fulcomer
Divisional Vice President, Director of Merchandising, Men's Division

Anton C. Haake
Vice President, Director of Quality Assurance

James L. Hailey
President, Women's Accessories Division

Donald D. Hoggatt
President, Northeast Region

Edward T. Howard
President, West Region

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Vice President, Director of International Expansion

Nick B. King
Divisional Vice President, Director of Merchandising, Home and Leisure Division

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Divisional Vice President, Director of Merchandising, Family Shoes

Peter M. McGrath
Divisional Vice President, Director of Merchandise Development, Children's and Family Shoes Division

William E. Nolta
Divisional Vice President, Director of Catalog Advertising and Publications

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Dennis D. Radabaugh
Divisional Vice President, Director of Catalog Fulfillment

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Kenneth T. Russo
Vice President, Director of International Sourcing

Joseph P. Sapienza
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Lucinda C. Sapienza
Divisional Vice President, Director of Merchandising, Women's Division

Donald F. Scaccia
Divisional Vice President, Director of Merchandise Development, Women's Division

Gerald L. Shores
Divisional Vice President, Director of Merchandising, Women's Division

N. Tice Siegel, Jr.
President, Children's and Family Shoes Division

Michael W. Taxter
President, South Region

Michael Todres
Vice President, Director of Distribution and Non-Resale Purchasing

Corporate

William J. Alcorn
Vice President and Controller

Charles Brown
Vice President, Director of Credit

Robert B. Cavanaugh
Vice President and Treasurer

Thomas A. Clerkin
Vice President, Director of Planning and Research

Donald L. Heise
Vice President, Director of Consumer Banking Services

Bruce A. Hill
Divisional Vice President, Assistant Director of Personnel

Jay F. Hundley
Vice President, Director of Personnel

Howard J. Johnson
Vice President, Director of Auditing

N. Michael Lowenkron
Vice President, Director of Real Estate

Alfred F. Lynch
Vice President, Director of International Development

Cathy J. Mills
Vice President, Director of Company Communications

Richard P. O'Leary
Vice President, Director of Construction Services

Donald M. Rose
Divisional Vice President, Personnel Relations Director

Mary A. Rostad
Divisional Vice President, Assistant Director of Personnel

James C. Schwaninger
Vice President, Director of Government Relations

Delmer R. Threadgill
Vice President, Director of Taxes

Wynfred C. Watkins
Vice President, Director of Investor Relations

Fred A. Williams
Vice President, Director of Insurance

Assistant Controllers

Nancy F. Brigham
Michael D. Reardon

Assistant Secretaries

Frank J. Bonet
Thomas M. Comerford
Alfred O. Goellner
Margaret R. Johnson
Eugene P. McGreal
Jeffrey J. Vawrinek

Assistant Treasurer

Stephen F. Walsh

1. Member of the Audit Committee of the Board of Directors. This committee recommends to the Board of Directors for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The committee also reviews the audit plans, scope, fees, and audit results of the auditors, reports on the adequacy of internal accounting controls; non-audit services and related fees; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings.
2. Member of the Public Affairs Committee. This committee identifies, analyzes, and brings to the attention of the Board social and environmental trends, community affairs, and public policy issues that may have a potential impact on the business performance and investment character of the Company. It assures that Company policy and performance reflect a sensitivity toward the social and physical environments in which the Company does business and that such policy and performance are in accord with the public interest.
3. Member of the Committee on Directors. This committee makes recommendations to the Board with respect to the size, composition, and functions of the Board of Directors, the qualifications of directors, candidates for election as directors, and the compensation of directors.
4. Member of the Personnel and Compensation Committee. This committee reviews the Company's annual and long term incentive compensation plans, makes recommendations in areas concerning personnel relations, and takes action or makes recommendations with respect to the compensation of Company executive officers, including those who are directors. It is also the committee that administers certain of the Company's incentive and equity compensation plans.
5. Member of the Benefit Plans Review Committee. This committee reviews annually the financial condition and investment performance results of the Company's retirement plans, annual actuarial valuation reports for the Company's pension plan, and the financial condition, investment performance results, and actuarial valuation aspects of the Company's welfare plans. It is also the committee that administers certain of the Company's retirement and welfare plans.
6. Member of the Special Finance Committee. This committee takes action and makes recommendations with respect to the issuance and sale of debt securities and similar instruments in transactions by the Company or its subsidiaries in the U.S. market and the international capital markets.

Annual Meeting

Our Annual Meeting of Stockholders will be held at 10 a.m. local time, Friday, May 17, at the Company's Home Office located at 6501 Legacy Drive, Plano, Texas 75024-3698. You are cordially invited to attend. The annual report and proxy statement, including a request for proxies, were mailed to stockholders on or about April 10, 1996.

Stockholder Relations

Transfer Agent/Registrar

Inquiries about your stockholder records should be forwarded to:

Chemical Mellon Shareholder Services
JCPenney Shareholder Services
P.O. Box 590
Ridgefield Park, NJ 07660
1-800-842-9470

Exchange Listing

The New York Stock Exchange
(Ticker symbol-JCP)

Dividend Reinvestment/Direct Deposit

Registered stockholders may acquire additional shares of JCPenney common stock through its Master Dividend Reinvestment Plan. Safekeeping of shares, reinvestment of dividends, and additional cash contributions can be utilized through this plan.

Registered stockholders may also elect to have their quarterly dividends electronically deposited into a checking or savings account on dividend payment date.

For more information regarding these services, contact Chemical Mellon Shareholder Services at the above location.

Quarterly Newsletter

If you are not currently receiving the quarterly newsletter to stockholders and would like to do so, please write to us or contact us by telephone (214) 431-1488 or by fax, (214) 431-1362. You may also receive the quarterly newsletter from investor relations through our home page on the Internet.

Internet Access

Other public financial information is available through the Internet. Our internet address is www.jcpenney.com.

Financial/Other Information

Copies of the following are available upon request:

The Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission

The Company's Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission

JCPenney Quarterly News, a financial update

JCPenney Minority Business Opportunities, a handbook to minority suppliers

JCPenney Community Partners, the Company's social responsibility report

JCPenney's Special Report Update on Its Environmental Responsibility

JCPenney Funding Corporation's Annual Report

Requests for the above should be addressed to:

Investor Relations Department
J.C. Penney Company, Inc.
P.O. Box 10001
Dallas, Texas 75301-8105
(214) 431-1488

Sales Release Dates for Fiscal 1996

Release Date	Sales Period
March 7	February 1996
April 11	March 1996
May 9	April 1996
June 6	May 1996
July 11	June 1996
August 8	July 1996
September 5	August 1996
October 10	September 1996
November 7	October 1996
December 5	November 1996
January 7	December 1996
February 6	January 1997

Earnings Release Dates for Fiscal 1996

Release Date	Quarter
May 14	1st Quarter
August 13	2nd Quarter
November 12	3rd Quarter
February 20 (tentative)	4th Quarter

Security Analyst & Investment Professional Contact

W.C. Watkins	(214) 431-1972
Eli Akresh	(214) 431-2207

1995 Annual Report

J.C. Penney Company, Inc.
P. O. Box 10001
Dallas, Texas 75301

This Annual Report is printed on paper with a total recycled fiber content of not less than 50% including 20% post-consumer waste.